## TABLE OF CONTENTS


| | Page |
|---|---|
| **EXECUTIVE SUMMARY** | iii |
| **1. MANDATE** | 1 |
| **2. CORPORATE PROFILE** | 1 |
| 2.1. Corporate Objective and Profile | 1 |
| 2.2. Governance and Accountability | 1 |
| 2.3. Overview of VIA's Business | 1 |
| **3. THE BUSINESS ENVIRONMENT** | 6 |
| 3.1. Current Situation | 6 |
| 3.2. Future Trends: Markets, Competition and Other Factors | 7 |
| **4. RESULTS OVERVIEW: 2009 TO 2013** | 8 |
| 4.1. Revenues | 8 |
| 4.2. Expenses | 10 |
| 4.3. Capital Expenditures | 10 |
| **5. SAFETY IMPERATIVES** | 11 |
| 5.1. Overview | 11 |
| 5.2. Barrhaven Area Crossings | 12 |
| 5.3. Grade Crossings Regulations Consultations | 13 |
| 5.4. Safety Initiatives | 13 |
| **6. STRATEGIC DIRECTION** | 14 |
| 6.1. The Context | 14 |
| 6.2. The Principles | 14 |
| 6.3. Key Strategies | 15 |

**7. HUMAN RESOURCES** **16**

7.1. Alignment with the Government of Canada Directives for Compensation and Pension Plans 16
7.2. Bill C-60 16

**8. FUNDING OVER THE 2014-2018 PLAN PERIOD** **16**

**9. OVERVIEW OF THE 2014-2018 OPERATING PLAN** **17**

9.1. Revenue 17
9.2. Operating Expenses 18

**10. 2014-2018 CAPITAL INVESTMENT PLAN** **19**

10.1. Overview 19
10.2. Requirements for 2014 to 2018 22

**11. ISSUES AND MAJOR RISKS** **24**

11.1. Safety of Passengers, Employees and the Public 24
11.2. Employee Engagement 24
11.3. Funding Considerations 25
11.4. Revenue 25
11.5. Infrastructure 26
11.6. Quality and Reliability of the Equipment 27
11.7. Fuel Cost Fluctuations 28
11.8. Train Services Affected by Infrastructure Issues 28

**ANNEX 1 – KEY FINANCIAL TABLES**

# EXECUTIVE SUMMARY

## VIA Mission

VIA Rail Canada Inc. (VIA) operates Canada's national passenger rail service on behalf of the Government of Canada. VIA was established as a non-agent, independent Crown Corporation established in 1977. VIA's vision is to provide a safe, efficient, reliable, cost-effective and environmentally responsible service from coast to coast in both official languages to meet the needs of travelers in Canada. In 2013, VIA served over 450 Canadian communities and carried 3.9 million passengers.

## VIA Services

**Intercity travel in the Quebec City-Windsor corridor**: In the densely populated areas of Ontario and Quebec, VIA trains provide fast, convenient, downtown-to-downtown travel between major urban and suburban centers and communities.

**Long-distance travel and tourism across the country**: In Western and Eastern Canada, VIA's trains provide transportation services and also attract travelers from around the world. The *Canadian* provides service between Vancouver and Toronto, and the *Ocean* operates between Montreal and Halifax. They also serve communities along the route year-round.

**Services for regional and remote communities**: Although not commercially viable and heavily subsidized, the Government of Canada mandates these services to meet essential transportation needs. They serve many communities where alternative, year-round transportation is limited or unavailable.

VIA is widely recognized as the green choice for travel, generating lower GHG (greenhouse gas) emissions than many other transportation choices. The company is also committed to keeping passenger rail as the most accessible mode of intercity transport for Canadians who are physically disabled. An active partner in the communities it serves, VIA also creates a better workplace with a talent development framework and an employee recognition program.

## Strategic Direction and Objectives

VIA will continue to focus its resources and energy to enhance value to customers and the communities it serves, while continuing to be efficient and frugal with taxpayers' funds. To the extent possible within its mandate, VIA will mitigate the increase in the operating deficit by matching train service levels to markets where demand so justifies.

When funds become available, VIA will invest primarily in its infrastructure for safety, reliability and on-time performance, and introduce additional train frequencies to improve revenues and lessen dependence on Government funding. VIA will invest in third party infrastructure only when there are no viable alternatives and benefits can be guaranteed.

In order to manage operations efficiently, effectively and economically, and to provide a safe, secure, reliable and environmentally sustainable rail passenger service, VIA will:

- Have a culture where safety is everyone's first and foremost concern;
- Be top of mind for individuals and family travelers in the Corridor, and provide a unique way to experience Canada for Canadian and foreign tourists;
- Provide quality service that customers recognize at its true value;
- Use public funding efficiently, effectively and economically;
- Promote creativity, innovation and teamwork;
- Be an open place with open and candid discussions, where everyone acts with respect and rigour, a sense of humour, and in the best interest of the customer;

- Everyone shares in the same objectives; and
- Be a workplace where each employee feels recognized and rewarded for being of service to passengers, to each other, and to the communities VIA serves.

Effective communication is essential to attract customers, and VIA will leverage all marketing channels including an effective use of social media.

**The Business Environment**

As has been the case for other transportation modes, ridership and passenger revenues have decreased significantly since the recession that began in late 2008. Passenger revenue decreases (-12% since 2008) were partly mitigated by increases in other revenues.

Over the past few years, ridership and revenues have also been affected by strong competition from air and bus – both in terms of services and low prices – train service reductions and poor on-time performance. In order to address and contain the revenue decreases, VIA practices rigorous cost containment. VIA has introduced a series of productivity improvements by focusing on four areas: traffic and revenue growth; compensation management; operating and maintenance efficiencies; and, capital investment benefits. As a result, operating expenses (before pension costs) increased by $4.3 million in 2013, but are down 3.8% ($19.6 million) from 2008.

During the economic downturn, VIA implemented several mitigation strategies including major capital investments to improve infrastructure and rolling stock. Unfortunately, the anticipated growth in revenues did not fully materialize since Canadians were travelling less. Also, growing rail traffic congestion (freight and commuter traffic) and delays caused by the host freight railways (that own 98% of the track on which VIA operates) have negatively affected VIA's on-time performance, trip times and its ability to add new train frequencies. This has affected VIA's reputation with its customers resulting in lower revenues.

VIA continues to face intense competition in all of its key markets. However, the implementation of the major capital program and the various marketing and operating strategies is aiding VIA's recovery from the economic slowdown that continues to affect the passenger transportation industry.

**Major Constraints**

The growth in freight train traffic on rail infrastructure over which VIA operates has led to a deterioration in VIA's on-time performance. VIA's objectives and interests are different from those of the freight railways. As a result of sharing the same tracks as the freight rail companies, VIA's trains are often sidelined when freight trains come through and VIA cannot add train frequencies in accordance with consumer demand.

VIA's relatively long trip times and limited frequencies do not allow the competitive edge required to be a market leader, even in the Corridor.

While additional government funding over the next few years has been identified to maintain VIA's capital assets, that funding is not sufficient to enhance service and renew equipment.

**Safety Imperative**

Recent events, such as the tragic accident at Lac Mégantic, the unprecedented increase in transportation of petroleum by rail, and VIA's high-profile issues with its crossing protection devices in the Barrhaven area of Ottawa, have heightened awareness of safe practices in the railway industry.

Safety and security are on-going top priorities. VIA continuously works to improve the safety and security of its operations and to inform the public about safety issues. VIA's internal auditors, PricewaterhouseCoopers, performed an audit in 2012 and observed that VIA had a safety culture imbedded throughout the organization.

New grade crossing regulations have been announced and VIA will need to consider the funding implications of installation and maintenance. CN has already indicated that VIA will be expected to contribute to the additional costs anticipated. VIA expects similar requests from other railways, in addition to what it will incur on its own infrastructure.

VIA is developing a GPS-based Train Control System that would provide most of the benefits of the Positive Train Control being considered in North America by other railroads, but at a fraction of the cost. Safety devices, such as camera and voice recorders are being installed on all VIA locomotives. VIA is also implementing corrective actions to resolve the crossings issues that have been experienced in the Barrhaven area. Up to $2.5 million is being spent for the construction of a new side track and for substantial modifications to crossings in the area. All of the corrective actions will be completed by October 2014 and the new siding track will be operational by the second quarter of 2015.

**Risks and Other Issues**

VIA performs periodical business risk and control assessments allowing the development and implementation of risk mitigation measures. Risks identified include:

- Safety and security of passengers, employees and public;
- Employee engagement;
- Funding considerations;
- Revenue generation;
- Infrastructure risks, such as cost and adequacy of track access, railway track segments abandoned by owners, track quality (shortlines);
- Quality and reliability of equipment (rolling stock);
- Fuel cost fluctuations.

These risks and mitigating measures are discussed in more detail in the Risk section of the Plan.

**Revenues Highlights**

In the Corridor, revenues are down 3.1% since 2011 as a result of a decrease in passenger volumes. By refocusing its revenue management strategy, VIA is now projecting a 2% increase in passenger revenues between 2014 and 2018 (before additional frequencies).

Revenues on long-haul trains have also decreased significantly in the past 3 years: on the *Ocean* by 37.9% and on the *Canadian* by 5.1% mainly due to the decline in passenger volume. Over the next five years, VIA projects a further decrease of 37% in passenger revenues on the *Ocean* and 6% on the *Canadian*. The *Ocean* is experiencing a declining market and the *Canadian* is facing ever-increasing competition from other transportation companies, and poorer on-time performance as a result of the growth in freight traffic.

Revenues on Regional and Remote (mandatory) services have decreased by 28.5% since 2009 mainly due to passenger volume declines. VIA is not expecting this trend to change significantly in the future and a further 30.5% decrease in passenger revenues is forecast between 2014 and 2018 for these services.

**Operating Expenses Highlights**

VIA's cost base is greater than its revenues, and there is a significant part of the network in which passenger revenues will continue to decline. In addition, over the planning period, VIA is faced with increases stemming from various long term agreements.

Although VIA will continue to implement productivity initiatives, additional savings will not be as easily achieved since VIA will not be able to continue to offset compensation increases through staff reductions.

Recent compensation and productivity initiatives to partly offset revenue decreases and other costs increases include:

- addition of more train frequencies in the Corridor;
- performing more maintenance work in-house without significantly increasing staffing;
- use of normal attrition to implement savings without layoff costs; and
- additional initiatives for fuel savings such as the use of telemetry on trains.

VIA will add three additional frequencies in the Corridor in the context of continued intense competition from other transportation modes. The three frequencies are expected to provide a positive contribution to the bottom line by the end of the planning period with a $2 million revenue betterment after recovery of compensation and other operating expenses.

## 2014-2018 Capital Highlights

Funding has been identified to maintain VIA's extensive asset base in a state of good repair. This funding is anticipated to be used during the first three fiscal years of the 2014-2018 Corporate Plan, subject to Treasury Board and Parliamentary approval. The last two years of this plan remain unfunded.

VIA requires ongoing capital funds to be able to adhere to health, safety, security and regulatory requirements that result in equipment modifications, track and systems upgrades, and station and facilities improvements. Ongoing capital is also required to ensure reliable, efficient and economical operations in support of the various revenue optimization and productivity improvement initiatives.

Over the next five years, VIA will start planning for fleet renewal. Although some of the Corridor fleet is in the process of being rebuilt and the F40 locomotives have been modernized, these actions will only have extended their useful lifespan by a maximum of 10 years for the LRC cars and by up to 20 years for the locomotives. The HEP2 cars used in the Corridor were originally manufactured in the 1940's and require replacement. The HEP1 fleet operating on the *Canadian*, except for the reconfigured 12 cars, is only getting a refresher of their interiors, and will also require a major upgrade or replacement. The Renaissance equipment operating on the *Ocean* is now more than ten years old and is undergoing regular overhauls with limited impact on life extension.

VIA will have to continue to invest in its own infrastructure and perform all safety, reliability, and state of good repair upgrades, and will invest in projects supporting additional frequencies. As for stations, VIA will invest in VIA-owned stations primarily in the Corridor, such as Ottawa and London, and in its leased space at its two major hubs of Toronto and Montreal. VIA will develop business cases for investments in major suburban stations, such as Kingston, Ste-Foy and St-Hubert. VIA will also participate in development projects where VIA can capitalize on its real estate assets with a view of improving customer amenities, reducing costs, and making a positive financial return, including land development in Ottawa and Halifax.

## Pensions and Labour Relations

VIA has implemented a number of initiatives to reduce pension costs and also reduce pension plan administration costs.

## Longer-Term Expectations

Despite the Corporation's best efforts, the annual operating deficit will continue to face pressure as expenses are larger than revenues. In the long term, the only way for VIA to achieve financial self-sufficiency and reduce its dependency on Government appropriations is to invest in its own infrastructure and acquire its own tracks in order to be able to operate more trains with shorter trip times.

# 1 MANDATE

VIA Rail Canada Inc. (VIA) operates a passenger rail service, providing intercity passenger service and regional and essential remote passenger rail transportation. The Corporation's objectives are to provide a safe, efficient and reliable passenger rail service in Canada. VIA is mandated to operate its network with the corresponding funding through the annual approval of its Corporate Plan.

# 2 CORPORATE PROFILE

## 2.1 Corporate Objective and Profile

VIA Rail Canada Inc. operates the nation's passenger rail services on behalf of the Government of Canada, providing intercity passenger services and maintaining regional and essential remote passenger rail transportation, as approved by the Governor in Council. The Corporation's objectives are to manage and to provide a safe, efficient, reliable, and environmentally sustainable rail passenger service that meets the needs of travelers in Canada.

VIA is a Crown Corporation listed in Part I of Schedule III to the *Financial Administration Act*, is appropriation dependent, is not an Agent of Her Majesty, and is subject to income taxes. The Corporation was incorporated on January 12, 1977 under the *Canada Business Corporations Act*.

## 2.2 Governance and Accountability

VIA's Board of Directors consists of the Chair, the President and Chief Executive Officer and eleven other Directors, who are appointed by the Governor in Council on the recommendation of the Minister of Transport. The Board of Directors reports to the Minister of Transport. The Board is responsible for overseeing the strategic direction and management of the Corporation and approves all strategies, initiatives, investments, budgets, corporate plans, and contracts.

VIA has a well-informed, experienced, and engaged Board of Directors. The members are carefully selected, and include individuals who possess a strong mix and balance of skills, knowledge and experience that support the achievement of VIA's vision and strategic objectives.

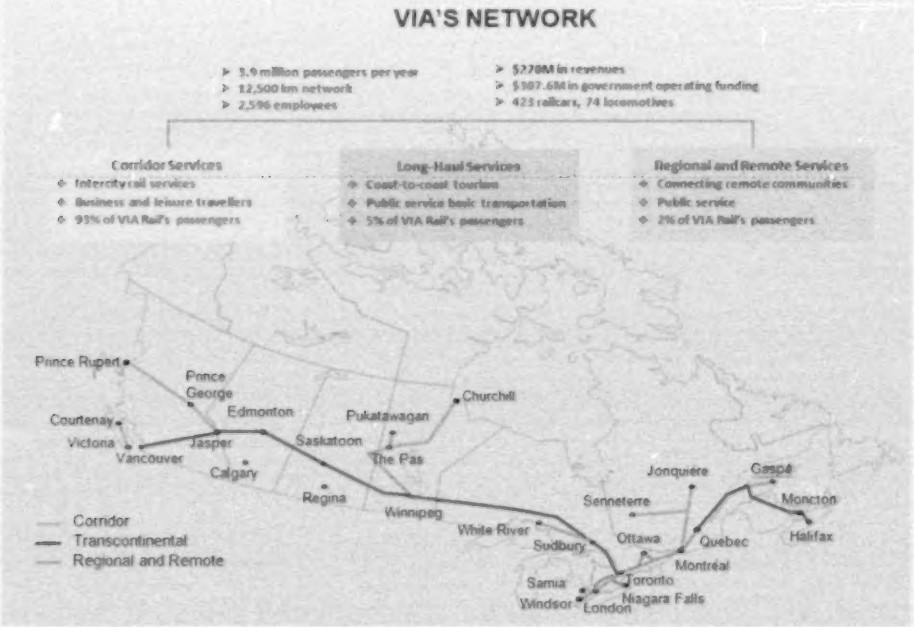
All members of the Board sign a code of ethics reflecting the spirit and intent of the *Federal Accountability Act*, which sets out standards of transparency and accountability for the officers and directors of Crown Corporations.

The Board takes its role of governance seriously and commissioned an evaluation in 2013 of its governance's processes and performance. As a result, VIA has and will be implementing the recommendations outlined in the assessment.

Four committees assist the Board in oversight: the Audit and Finance Committee; the Governance Risk and Strategy Committee; the Pension Investment Committee; and the Human Resources Committee.

## 2.3 Overview of VIA's Business

VIA operates Canada's national intercity passenger rail service in all regions of Canada. The rail service operates over approximately 12,500 kilometers of rail infrastructure. In 2013, VIA carried 3.9 million passengers yielding 832 million passenger-miles, and operated 6.2 million train-miles. VIA operates three distinct types of services: Corridor, Long-Haul, and Regional and Remote.




## 2.3.1 VIA's Services

### 2.3.1.1 Corridor Services

In the Quebec City-Windsor Corridor, VIA operates fast, convenient, and relatively frequent service between Canada's largest business and residential communities. VIA's market consists of both business and leisure travel.

In 2013, 3.6 million passengers travelled in this busy corridor, representing 93% of VIA's traffic and generating passenger revenues of $207 million or 77% of VIA's total passenger revenue.

The market for VIA's Corridor service exists year round. Trip times and the number and choice of departures (frequencies) are the critical factors that determine success in this type of high-density market. Revenue has been negatively affected by fierce airline competition, and more specifically by the price war between Air Canada, Porter Airlines, and West Jet between VIA's biggest markets, Montreal-Ottawa and Ottawa-Toronto, both from Toronto Pearson and Island Airports.

Both low-cost bus and the ever-present automobile also provide serious competition to VIA in this market as these transportation modes offer convenient departure times, comparable trip times, and perceived value for price.

### 2.3.1.2 Long-Haul Services

VIA operates two long-distance (long-haul) overnight services:

The *Canadian*, operating between Toronto and Vancouver three round trips per week during the six-month peak summer period from May to October, and two round trips during the off-peak period. Over the past year, the *Canadian* has been struggling with poor on-time performance mainly caused by the high congestion of freight traffic. The *Canadian* offers a touring class that includes meal service, sleeping accommodation and a dome car for sightseeing, and basic transportation services to remote communities along the route. VIA operates this service with 104

stainless-steel HEP cars. VIA has recently refinished the interiors of 72 HEP cars providing an updated and refreshed interior look, and is in the process of gradually introducing 12 Prestige Class funded by Canada's Economic Action Plan and will be able to provide accessible accommodations that comply with the Canadian Transportation Agency's *Code of Practice - Passenger Rail Car Accessibility and Terms and Conditions of Carriage by Rail of Persons with Disabilities*. One car was introduced mid-August 2014; full implementation is expected by summer 2015.

The *Ocean* operates between Montreal and Halifax three times per week year-round. The frequency of service was reduced from six round trips per week. VIA offers an overnight service with its Renaissance cars including sleeping accommodations and dining facilities. Trains operate with a dome car for sightseeing during the summer months. Ridership is steadily declining due to stiff competition from road and air travel. In addition, destinations in E astern Canada have been struggling as a tourist destination. A potential mid-summer service disruption that would have been the result of a host railway track abandonment was averted when VIA agreed to invest $10.2 million for the required infrastructure repairs.

The markets for both these long-haul services are highly seasonal. In addition to passengers from communities served, the *Canadian* and the *Ocean* attract the touring travel market from Canada and around the world during the peak season, supporting Canada's tourism industry.

#### 2.3.1.3 Regional and Remote Services

Regional and Remote services satisfy essential transportation needs of communities where alternative and affordable transportation is limited or unavailable. Currently, VIA has suspended two of these services for safety reasons due to the poor condition of the rail infrastructure. VIA will only reinstate them once it is satisfied that it is safe to operate on the infrastructure. These services are Victoria-Courtenay in British Columbia and Matapédia-Gaspé in Quebec. The services that are currently operating and offering three round trips per week are Jasper-Prince Rupert, Sudbury-White River, Montreal-Senneterre and Montreal-Jonquière, and finally Winnipeg-Churchill with two trains per week, with one additional train from The Pas to Churchill.

Regional and Remote services are heavily subsidized and non-commercial. The average subsidy in 2013 was $545 per passenger carried. These are public services offered as part of the Canadian government's transportation system and designed to provide transportation to all Canadians and communities, including those in remote areas.

Shortline railways own for the most part the infrastructure purchased from CN and CP when they divested track (with the exception of Sudbury-White River owned by CP, and Jasper-Prince Rupert/Jonquière-Senneterre owned by CN). The shortline railways generally do not have the financial capacity to invest in the infrastructure to maintain higher than freight train speeds, and to prevent deterioration (the reason for suspension of two train services).

#### 2.3.1.4 Rail Infrastructure

##### Tracks

VIA has commercial agreements with the host railways for the access to the tracks. The following table outlines the route miles over which VIA operates divided by type of service and by ownership.

Table 2.4.1.4a – VIA Train Services Route-Miles

| Service | CN | CP | GEXR (1) | HBR (2) | SCFG (3) | SRVI (4) | Metrolinx (5) | VIA | Total |
|---|---|---|---|---|---|---|---|---|---|
| Corridor | 758 | 28 | 89 | | | | 65 | 159 | 1,099 |
| Long-Haul | 3,600 | | | | | | 14 | | 3,614 |
| Regional & Remotes | 1,833 | 301 | | 570 | 98 | 139 | | | 2,941 |
| **Total** | **6,191** | **329** | **89** | **570** | **98** | **139** | **79** | **159** | **7,654** |
| % of Total | 82% | 4% | 1% | 7% | 1% | 2% | 1% | 2% | |

(1) GEXR – Goderich-Exeter Railway Limited; (2) HBR – Hudson Bay Railway Company; (3) SCFG – Société du Chemin de Fer de la Gaspésie
(4) SVI – Southern Railway of Vancouver Island; (5) Metrolinx – Greater Toronto Transportation Authority

The rail infrastructure is single track except for portions in the Corridor. CN owns the majority of the rail infrastructure (82%), while other freight and commuter railways own the rest (16%); VIA only owns 2%.

Although VIA owns 2% of the infrastructure, it operates 9% of its train-miles on the portion it owns since it is part of the busy Corridor with several round trips per day. The following table provides an indication of the distribution of train-miles by train service and infrastructure owner.

Table 2.4.1.4b – VIA Train Services Annual Train-Miles (000s)

| Service | CN | VIA | CP | GEXR | HBR | SCFG | Metrolinx | SVI | Total |
|---|---|---|---|---|---|---|---|---|---|
| Corridor | 3,223.9 | 565.5 | 125.3 | 127.4 | | | 303.5 | | 4,345.6 |
| Long-Haul | 960.6 | | | | | | 3.3 | | 963.9 |
| Regional & Remotes | 512.2 | | 86.0 | | 178.0 | 16.3 | | | 792.5 |
| **Total** | **4,696.7** | **565.5** | **211.3** | **127.4** | **178.0** | **16.3** | **306.8** | | **6,102.0** |
| % of Total | 77% | 9% | 4% | 2% | 3% | - | 5% | | |

Stations

VIA has an extensive network of stations. VIA owns many of the stations it uses and leases the rest. Leased stations include extremely busy ones, such as Toronto Union and Montreal Central Stations, both of which are shared with local commuter services. VIA owns Ottawa, Kingston, London and Windsor Station, and suburban stations in major cities in the Corridor, including Dorval, Fallowfield, and Oshawa Station.

The long-haul services also operate out of Montreal Central and Toronto Union Stations. Major stations along the long-haul routes include Vancouver, Winnipeg, Moncton and Halifax Stations. On the long-haul routes, many stops are simply signposts and platforms. Stations and stops along these routes, including remote and regional services, while not busy, are important for the communities that they serve. The following table outlines VIA's station network:

Table 2.4.1.4c – VIA Stations

| Service | Stations | Shelters | Sign-Posts/Platforms | Total |
|---|---|---|---|---|
| Corridor | 42 | 4 | 2 | 48 |
| Long-Haul | 27 | 4 | 75 | 106 |
| Regional and Remote | 26 | 7 | 240 | 273 |
| **Total** | **95** | **15** | **317** | **427** |

Maintenance Centres

VIA performs servicing and maintenance of its equipment at its state of the art maintenance centres located in Vancouver, Winnipeg, Toronto and Montreal. Servicing and minor maintenance also takes place at Halifax and other satellite locations. Fueling is performed at the

end destinations in the Corridor and at designated locations on the Long-Haul and Remote and Regional routes.

Equipment

VIA's fleet of active equipment comprises 74 locomotives and 423 cars. The details are included in the following table:

Table 2.4.1.4d - VIA Rolling Stock

| Equipment Type and Description | Quantity | Year Built | Latest Rebuild | Deployment |
|---|---|---|---|---|
| **Locomotives:** | | | | |
| General Motors F40 | 53 | 1986-87 | 2007-12 | All services |
| General Electric P42 | 21 | 2001 | | Corridor |
| **Total Locomotives** | **74** | | | |
| **Cars:** | | | | |
| Light, rapid, comfortable (LRC) | 97 | 1980-81 | 2011-17 | Corridor |
| Head-end power (HEP 2) (stainless steel heritage) | 33 | 1947-54 | 1989-94 | Corridor |
| Renaissance (from U.K.)* | 106 | 1996-98 | 2001-03 | Corridor and *Ocean* |
| Head-end power (HEP 1)** (stainless steel heritage) | 173 | 1954 | 1989-94 | *Canadian* and Remotes |
| Panorama dome cars | 3 | 2000 | | *Canadian* |
| Blue and Yellow heritage coaches | 4 | 1951-54 | | The Pas – Pukatawagan |
| Glen Fraser (lounge car) | 1 | 1954 | | |
| Self-propelled Rail Diesel Car (RDC) | 6 | 1957 | 2012 | Sudbury – White River<br>Victoria – Courtenay |
| **Total Cars** | **423** | | | |
| **TOTAL FLEET** | **497** | | | |

* The Renaissance operates with HEP transition baggage and dome cars during the summer months on *The Ocean*
** Includes 12 rebuilt Prestige Class cars

Given the age of the various types of rolling stock, VIA will have to begin the process of renewing its locomotive and car fleet in the near future.

Partnerships with the Private Sector

As a Canadian corporation operating from coast to coast to coast, VIA is involved in many partnerships across the country. For example, Rocky Mountaineer Railtours (RMR) partners with VIA to provide a coast-to-coast travel experience, as RMR sells VIA tickets through its travel agent branch.

VIA has been doing business with Amtrak since VIA's inception. VIA and Amtrak have a reciprocal agreement whereby each sells tickets for the other passenger rail carrier. In addition, VIA and Amtrak operate a joint train between Toronto and New York City, through Niagara Falls. VIA also performs maintenance for Amtrak at both Montreal and Vancouver, and provides staff and station facilities for a fee.

VIA performs all maintenance for the Vancouver rail commuter service, West Coast Express. VIA first began performing this maintenance in 1995, obtaining the work through a series of competitive bids.

# 3 THE BUSINESS ENVIRONMENT

## 3.1 Current Situation

### 3.1.1 Markets and Competition

Worldwide economic growth, and growth in Central and Eastern Canada has been slow and unsteady since the 2008/2009 Great Recession, and has been affected by global conditions such as a slow recovery in the United States from the recession and uncertainty over the European economic crisis. This has dampened both business and personal travel, thus affecting VIA and all other transportation companies. This is particularly true in VIA's key domestic markets of Ontario, Quebec, New Brunswick and Nova Scotia, and also applies to VIA's major international markets such as the United States, Europe and Asia.

The report *Transportation in Canada 2011*, produced by Transport Canada, indicates that not only VIA but other modes of transportation suffered a slowdown that lasted beyond the Great Recession. Notably, a sharp increase in fuel costs in 2011 forced airlines to increase their prices and reduce capacity to recover losses resulting from the significant fluctuations in oil prices. This report goes on to note that output in the passenger rail sector (including VIA and urban transit operators) decreased by 1.1% from 2009 to 2012, offset by fuel and labour productivity, to stabilize total productivity of the sector at 0.5% growth in 2010.

VIA also felt the competitive pressure of price wars with the airlines in 2012 and 2013, as airlines then tried to recover ridership. Governments and businesses have also been restricting travel, and this has affected VIA's major corporate accounts. In addition, a strong Canadian dollar has made travel to Canada more expensive, and travel from Canada more affordable.

As was the case for other modes, the economic downturn ended two decades of consecutive passenger revenue growth for VIA. Consumers became even more price sensitive and passenger-miles (volumes) dropped significantly.

- Automobile travel in the Corridor dominated the short and medium distance markets by a wide margin. This dominance is expected to continue in the long term and the stability of gasoline prices may further encourage private car use.

- Bus competition and fare price pressures have intensified in the Corridor.

- Competition from air travel has increased in every major market, and it has been particularly fierce in the Montreal-Toronto and Ottawa-Toronto segments. Expansion and improvements of air services have also had a significant negative impact on VIA's performance.

- The *Canadian* continues to face intense worldwide competition from all forms of tourist products. VIA offers a fleet that is 60-years old and has not been modernized in a quarter century.

During the economic downturn, VIA implemented several mitigation strategies including major capital investments to improve key elements of the infrastructure and modernize a portion of its fleet.

### 3.1.2 Operating Environment

Train frequency and trip times are the two critical factors that determine the success of intercity passenger rail. Both of these factors are determined by track quality and the constraints established by the host freight railways. As owners of the infrastructure, the host railways control the dispatching on the track and manage rail traffic priorities, while operating their own business. Growing rail traffic congestion and delays caused by the host freight railways is negatively affecting VIA's reliability,

resulting in a poorer customer experience and affecting passenger revenue. VIA also struggles with congestion at Canada's two major train hubs: Toronto Union and Montreal Central Station.

### 3.2 Future Trends: Markets, Competition and Other Factors

VIA continues to face intense and fierce competition in all of its key markets from all transportation modes.

VIA, like other companies in the transportation sector, continues to be affected by the 2008/2009 economic downturn. Revenues have not recovered from 2008 levels; however, the implementation of the major capital program and the various marketing strategies aimed at removing people from their cars are helping VIA to recover from that slowdown.

Although the value of the Canadian dollar has edged down recently, a relatively higher dollar will continue to render travel to Canada more expensive, and travel to other destinations from Canada more affordable.

It is expected that governments and businesses will continue to restrict travel by maximizing the use of the latest technologies (e.g. video conferencing, electronic messaging and telecommunication, etc.) negatively affecting VIA's major corporate accounts and business travel.

With the recent implementation of its revenue management system, VIA is now more agile in capacity adjustments and is better positioned to appeal to the very price sensitive segment of car users.

VIA has introduced additional frequencies, offering a wider choice of departures. This, with a more stable product (capacity, on-time performance, service delivery, comfort, productive environment with Wi-Fi, etc.) and supporting systems, will allow VIA to mitigate the risks associated with a declining ridership and revenues that result from increased competition, economic factors, and other constraints.

In addition, elements of the capital program (major investment and on-going capital funding) will also be used to mitigate the above risks.

## 4 RESULTS OVERVIEW: 2009 TO 2013

In 2013, revenues of $270.4 million were $6.5 million (2%) below 2012. Expenses of $490.1 million increased $4.3 million (1%) over 2012 (excluding pension costs). The total deficit for the year was $307.6 million. The operating deficit, excluding pension costs, was $10.8 million (5%) worse than 2012.

### 4.1 Revenues

As a result of the 2008/2009 economic downturn, as was the case with other transportation carriers and most significantly the airlines, VIA's anticipated revenues did not materialize. A combination of factors, such as low ridership and increased fuel costs, forced the airlines to increase prices and reduce capacity in 2010, resulting in a further decrease of ridership and a continuous struggle to regain ridership and bring it to pre-recession levels. The competition for market share has caused price wars between transportation modes in the busy Corridor markets.

Consequently, VIA's total revenues have been depressed and have increased by only 2% since 2009 which is less than the rate of inflation. Specifically, passenger revenue has declined by 3% in both 2012 and 2013 and is down 0.3% since 2009. While train service reductions are responsible for a portion of this decline, slow economic growth, worsening on-time performance, and the strong competition in VIA's two strongest markets have negatively affected revenue.

| REVENUES (millions of $) | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Total Revenues** | **264.9** | **274.4** | **282.8** | **276.9** | **270.4** |

In 2013, VIA implemented a volume strategy for attracting customers with a subsequent gradual increase in fare prices. This is beginning to show positive effects as yields improve in mitigating the downfall. The threat of a strike in June 2013 inhibited sales. Revenues were also affected by the residual effects of the 2012 train service reductions.

### 4.1.1 Initiatives

As part of VIA's ongoing management processes, revenue performance in all sectors is analyzed and forecasts are revised on a continuous basis, and as necessary, VIA revises its revenue maximization strategies. To date VIA has implemented the following growth initiatives:

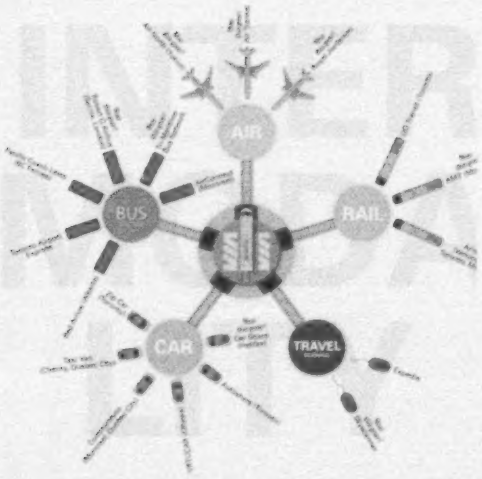
- introduction of additional train frequencies in the Corridor;
- a new and improved robust Wi-Fi with more bandwidth;
- a new booking engine with more features like fare shopping;
- a new revenue management system providing more flexibility to change fares on a continuous basis according to demand; and
- the introduction of e-ticketing which provides enhanced customer service.

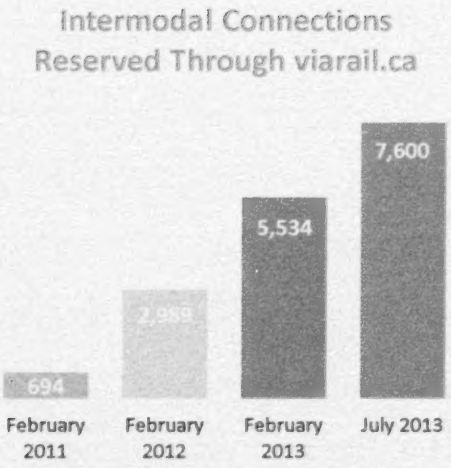
These initiatives position VIA at the level of its competitors, and help in revenue maintenance in the face of very strong competition.

In 2013, VIA also launched the all-Canadian On-Train Entertainment (OTE) system. OTE is an interactive digital platform that provides passengers on trains within the Quebec City to Windsor corridor free access to Canadian programming, including current news and programs from CBC/Radio-Canada, documentaries and animations from the National Film Board of Canada, and "Heritage Minute" vignettes produced by Historica Canada.

VIA has significantly contributed to the passenger transportation system in Canada by concluding intermodal agreements across the country with bus, commuter, air, and public car modes. By offering customers a simple, one-stop solution for door-to-door travel, customers have more travel options that make environmental and economic sense. As a result, VIA won a Global AirRail Award in 2013 for its worldwide leadership.

VIA has also signed a Memorandum of Agreement with UP Express regarding the upcoming Union Station – Pearson Airport rail link.




4.1.2 Train Service Revenue Results

In 2013, revenues in the section of the Corridor between Quebec City and Toronto increased by $2.0 million (1%) over 2012 levels due to the introduction of new frequencies. Revenues in Southwestern Ontario fell was below 2012 by $3.3 million (8%) over the same period due to a decline in frequencies made in 2012.

The success of intercity rail service in the Corridor is closely linked to departure and arrival choices, and the availability of train frequencies and trip times. In December 2012, VIA introduced additional Montreal to Quebec City and Toronto to Ottawa trains. Despite attracting more customers, those additional trains did not generate the planned revenues as quickly as forecast due to tough competition and market conditions. Also, as a result of the economic downturn, other transportation modes were offering significantly discounted fares.

As of the end of July 2014, VIA introduced 19 refurbished Business Class LRC cars into service. The renovated cars offer passengers more space due to the new seating arrangement which has one less seat per row (2 seats on one side, with one seat on the other, versus two sides on either side). They also offer reclining and adjustable seats, and renovated washrooms, lighting and window frames. At the same time, VIA also revamped the Business Class service to provide customers with a spacious, more comfortable, more efficient, and peaceful environment while travelling, thus making them more productive. Surveys show that respondents appreciate the enhanced comfort, the new look, and the improved service.

Also, VIA put in service 19 renovated Economy Class LRC cars. Customer feedback regarding these cars is favourable.

The *Ocean's* revenue was (-28%) lower than 2012 results with a (-42%) lower passenger count, a decline due predominately to the 50% frequency reduction, which was partially offset by higher yields.

The *Canadian's* revenue was below 2012 results by $1.5 million (-3.8%). This was due to the economic downturn and to frequency reductions partly offset by higher yields.

The regional and remotes services were slightly above last year by $9,000 (0.2%), mainly due to the suspension of the Montreal to Gaspé service in September 2013. The service between Victoria and Courtenay service was not budgeted for 2013.

Other revenue includes concessions, station parking, work performedfor third parties, such as the maintenance of Vancouver commuter trains (the West Coast Express), and investment income. Revenues were $1.3 million higher than 2012 due to higher station revenue.

### 4.2 Expenses

Regular operating expenses, excluding pension costs, were $5.2 million higher than 2012.

At 43% of total expenses, VIA's largest expense category is compensation. In 2013, compensation expenses were $6 million lower than the previous year. For more details, please refer to Section 7 – Human Resources.

VIA has implemented fleet optimization initiatives that include the temporary storage of 35 Renaissance cars in the Corridor, or 8% of the entire VIA car fleet. Train-miles are down 3% in 2013 and car-miles are down 11%, and the load factor has increased 2%.

### 4.3 Capital Expenditures

VIA is currently completing a $923 million investment program financed by the Federal Government, $407 million of which is Economic Action Plan funding. To date, $907 million, or 98% of the total $923 million has been spent, representing approximately 10,400 person-years of direct, indirect and multiplier-effect employment.

VIA's $923 million investment plan followed a period of limited or no capital funding. Prior to this investment program, VIA had no ongoing capital funding to address capital requirements, hence essential and critical projects were deferred to future years.

This investment plan has significantly benefitted the Corporation and its customers. Safety has been improved, the equipment is in much better shape and more attractive to customers, and provides a better working environment for VIA's employees.

The Government's investment in VIA has achieved the following:

- VIA rebuilt its F40 locomotive fleet that now consumes less fuel, produces less GHG emissions; the F40 locomotives are better than new at less than half of the cost of new locomotives.
- Rebuilt its six RDCs with additional baggage space and fully accessible.
- Largely rebuilt its LRC fleet, with a new business-class car design and full accessibility.
- Reconfigured four HEP heritage stainless steel Park cars, now fully accessible, and eight Chateau sleeping cars.
- Upgraded the Renaissance cars to make them fully accessible.
- Upgraded VIA-owned rail infrastructure on the Alexandria, Smiths Falls, and Chatham Subdivisions.
- The elimination of non-signaled territories and upgrades to automatic road crossing warning systems on VIA's Smith Falls and Chatham Subdivisions and CP's Brockville Subdivision, safety and reliability improvements, and increased capacity.
- Built approximately 50 miles of new third rail infrastructure on the CN Kingston Subdivision.
- By 2015, VIA will have introduced 12 additional train frequencies (including 2 additional Montreal-Quebec and 2 Montreal-Ottawa trains that VIA was able to negotiate with CN), an increase of 30%, in its busy Quebec City – Toronto corridor.
- Constructed or upgraded Oshawa, Cobourg, and Belleville Stations on the Kingston Subdivision, and constructed overhead footbridge structures and island platforms.
- Upgraded other stations across the country.

- Implemented significant technology improvements that benefit VIA and customers such as Wi-Fi and e-Ticketing.
- Implemented a full revenue management system, allowing VIA the flexibility to adjust pricing to market demand.

VIA spent $96.2 million in capital expenditures in 2013. Of the $96.2 million, $28.4 million was spent on equipment projects, $33.3 million on infrastructure projects, $22.6 million on Information Technology projects, and $11.9 million on other capital projects. These expenditures include hundreds of small projects that represent equipment modifications, rail infrastructure repairs, maintenance of stations and facilities, and information technology needs. Some of the equipment modifications include the installation of xenon headlights on the locomotive fleets and event recorders (recording of data from the locomotives).

The maintenance of the rail infrastructure included repairs to maintenance yard tracks at the Winnipeg and Vancouver Maintenance Centres, and tie replacement on VIA-owned track. Other Maintenance Centre projects include: replacement of baggage vehicles; the purchase of electrical lift trucks; and the replacement of fuel dispensers. Station projects include the heating system replacement at stations, repairs and improvements to platforms and tickets offices, and others. Some information technology projects include upgraded software for the service desk, hardware and software for the critical data and systems and the automation of human resources processes.

## 5 SAFETY IMPERATIVES

### 5.1 Overview

Recent rail accidents, such as the tragic events at Lac Mégantic, as well as other recent incidents involving the transportation of oil by rail in the United States, have heightened the public's awareness of the need for safe practices in the railway industry. This has caused a public debate and the Minister of Transport has responded by announcing more stringent rail safety regulations.

While all railroads must operate within safety parameters that ensure the safety of the operation and protect the communities through which railways operate, passenger rail safety standards are also designed to ensure the safety of the travelling public at all times.

VIA's Safety Management System (SMS) is submitted to Transport Canada annually. The SMS has been in place since 2000. It ensures the integration of safety responsibility into day-to-day activities. It confirms that VIA has the processes and procedures in place to identify, mitigate, and monitor risks, to report and log incidents, and that corrective and preventive actions are taken when they happen. This system ensures that roles and responsibilities are clearly understood by all concerned.

As part of the SMS, safety processes are audited internally and externally on an ongoing basis, ensuring adherence to the highest standard of safety. VIA's practices were evaluated by the auditors and were noted as reflecting appropriate safety practices. VIA's internal auditors, PricewaterhouseCoopers, performed an audit in 2012 and observed that VIA had a safety culture imbedded throughout the organization.

In addition to safety processes, VIA also ensures that it adheres to all safety rules and regulations including those established by the government and those that reflect best practices.

Infrastructure safety practices include:

- Regular inspection of all rail infrastructure components;
- Ultrasonic testing and electronic track geometry tests;
- Yearly independent audits;

- High Risk Area program, whereby areas of high risk are identified and all work to be done is prioritized according to the level of urgency required to repair the infrastructure;
- The closure of crossings (more than 70 have been closed over the last two years).

Equipment practices include:

- A scheduled maintenance program;
- Standard visual inspections and brake tests performed before/after every trip; and
- Full pit inspections performed regularly.

VIA trains its workforce to the highest standards of safety, and:

- Provides regular refresher courses;
- Applies a rigorous performance management program including mentoring and auditing;
- Introduces new technology such as fail-safe train controls, to reduce human errors in the locomotive cab; and
- Installs safety devices on locomotives (e.g. forward facing cameras and voice recorders), and biometric secure starting mechanism (digital fingerprints).

## 5.2 Barrhaven Area Crossings

Since early January 2014, an increased number of fail-safe activations have occurred at six railway crossings in the Ottawa suburb of Barrhaven. To add to these confirmed events, there have also been a number of misperceptions of normal Automatic Warning Device (AWD) functionality and train operations as well as false reports of malfunctions.

The net effect of these events has been traffic delays by road users and a loss of public trust in VIA's crossing protection systems specifically and safety in general.

Although unrelated, the tragic collision between an OC Transpo double-decker bus and a VIA train in Barrhaven on September 18, 2013, that killed five bus passengers and the bus driver, has heightened the community's sensitivity to all railway related issues.

With the help of two external engineering firms and VIA's contracted maintainer, VIA has identified the following issues with the AWDs:

- signal disruptions resulting from hydro and other electrical interferences and road salt contamination on the railway ballast;
- operational issues with trains stopping and setting off signals between Fallowfield Road and Woodroffe Avenue;
- mechanical and electrical issues with the crossing gates; and
- software problems with circuit boards and signal control devices.

VIA is now in constant communication with the City of Ottawa and OC Transpo to resolve the issues that have been experienced at the six crossings in the Barrhaven area.

Up to $2.5 million has been forecast for the construction of a new siding track at Wass, east of Barrhaven, to reduce false signal activations due to train traffic congestion, and for substantial modifications to Woodroffe and Fallowfield crossings to minimize impact on road users. The modifications will also reduce the complexity of train operations and improve the reliability of three other crossings.

All of the 132 corrective actions that have been identified are to be completed by November 2014

The new siding track at Wass will be operational by the second quarter of 2015.

VIA re-hired (out of retirement) its former Chief Operating Officer to rebuild communications with city and federal officials and to be the President's representative on-site. In the meantime, VIA's signal experts continue with additional reviews and to work closely with the signals supplier Siemens.

VIA's infrastructure maintainer is also providing additional coverage in the Barrhaven area to shorten response time, thus minimizing any impact to road users, and has increased the frequency of crossings inspections.

### 5.3 Grade Crossings Regulations Consultations

Transport Canada proposed Grade Crossings Regulations and the Regulatory Impact Analysis Statement were pre-published in the Canada Gazette, Part I, on February 8, 2014, for a 90-day comment period. Under the proposed Regulations, road authorities, private authorities and railway companies will be required to maintain sightlines at grade crossings. Sightlines will be preserved by prohibiting the construction or placement of structures and objects that obstruct the sightlines. Control of tree and brush growth that obstructs sightlines will be required as well.

Estimates received to date from host railways regarding VIA's costs to comply with the proposed regulations are very preliminary. Notwithstanding the preliminary nature of estimates, it is likely that the resulting costs to VIA will likely be significant.

VIA fully supports the objectives of the proposed Grade Crossings Regulations, particularly where they apply to higher risk crossings.

### 5.4 Safety Initiatives

VIA has maintained an excellent safety record since its inception and, over the years, safety has become a strong differentiator of VIA's culture (safety first and foremost). VIA not only adheres to but goes beyond applicable government regulations, and regularly inspects and maintains all of its infrastructure components and rolling stock.

VIA's personnel is trained to the highest standards of safety and attend refresher courses regularly. VIA is also continuing with the planning, development and introduction of new technologies that will significantly support safe and secure operations.

One key initiative that will further improve safety of the operations is the development of a GPS Train Control System that will provide most of the benefits of Positive Train Control (PTC) being implemented in the United States, at a fraction of the cost. This system relies on communication to and from the locomotive cab and will ultimately reduce the risk of human error through alert reminders of rules, speed restrictions and slow orders (speed restrictions), including the activation of penalty braking. One other advantage of the GPS system is that it does not require modifications to work on the rail infrastructure of host railways, otherwise it would have been difficult for VIA to implement.

## 6 STRATEGIC DIRECTION

VIA's new President and Chief Executive Officer was appointed on May 9, 2014. Shortly after his appointment, he immediately outlined some key elements that will underpin VIA's current and planned objectives. These are:

- Have a culture where safety is everyone's primary concern;

- Be a transportation service that, in the Corridor, is top-of-mind for individual and family travelers, as an alternative to their cars, and that provides a unique way for domestic and foreign tourists to experience Canada;
- Provide quality service that customers recognize at its true value;
- Use public funding strictly to cover the cost of providing mandated services to remote areas, and for building and maintaining its infrastructure;
- Promote creativity, innovation, and teamwork;
- Be a place where open and candid discussions, where everyone acts with respect and rigor, with a sense of humor, and in the best interest of the customer;
- Everyone shares the same objectives; and
- Be a workplace where each employee feels appreciated, recognized and rewarded for being of service to passengers, to each other, and to the communities VIA serves.

## 6.1 The Context

The Quebec City to Windsor Corridor is the only market in which VIA operates that can break-even, particularly the Toronto-Ottawa-Montreal segment. All other markets are not financially viable. Their losses will continue to grow despite VIA's best efforts to grow revenues and control costs. Some of these non-financially viable segments are true public services (e.g. Sudbury-White River and The Pas-Churchill) while others are services that compete with private sector operators (e.g. Winnipeg-The Pas, Toronto-Winnipeg, and Vancouver-Jasper in the summer).

## 6.2 The Principles

VIA is facing intense competition in all of its key markets; therefore, VIA intends to:

- Focus all its resources and energy to enhance value to customers and to maximize revenues, while continuing to serve many communities in Canada as is viable;
- Continue to be as efficient as possible and frugal with taxpayers' funds;
- Mitigate, to the extent possible within its mandate, the increase in the operating deficit by matching train service levels to markets where demand justifies;
- Continue to invest, when funding becomes available, in order to:
  - enhance safety;
  - improve train reliability and on-time performance;
  - introduce more train frequencies and significantly improve trip times to grow revenue, thereby reducing dependence on Government of Canada funding.

## 6.3 Key Strategies

To remain competitive, VIA has to fully understand its continuously changing environment and react with new strategies or corrective measures accordingly. This includes the development and implementation of market and pricing strategies, effective inventory management, and excellent communication.

### 6.3.1 Competitive Strategy

Since the automobile continues to be the dominant transportation mode in short to medium distance markets, VIA will target car usage as the main source of incremental volume by focusing on current train users to increase VIA's share of their travel wallet, and by promoting trial and re-trial of VIA among all other car users. This strategy will help traffic growth and revenue maximization, as per the first principle in Section 6.2.

### 6.3.2 Consumer Strategy

VIA will focus on consumers in the various markets based on their trip purpose: business versus non-business, and will target primarily adults followed by youth, to switch them from automobile usage to trains.

This focus is essential towards finding opportunities for expansion and growth revealed by the customers' lifestyles and behaviors to create a clear and comprehensive picture of their likes and dislikes. This will permit the development of initiatives aimed at enhancing value to customers ultimately leading to traffic and revenue growth.

### 6.3.3 Pricing and Inventory Strategy

As the automobile captures the majority of trips made in the Corridor, VIA will stimulate volume by encouraging train travel among car users.

### 6.3.4 Communication Strategy

Effective communication is essential to optimize the consumers successful journey along the path to purchase a product or services. VIA will continue to invest to render its communications more effective to target key markets, both ongoing and new.

VIA will leverage all marketing channels, including an effective use of social media, and ensure a year-round media presence in the Corridor.

### 6.3.5 Revenue Management

With the implementation of the enhanced revenue management system, VIA is now more agile with capacity adjustments, and is better positioned to appeal to price sensitive car users.

## 7 HUMAN RESOURCES

### 7.1 Alignment with the Government of Canada Directives for Compensation and Pension Plans

VIA has taken great efforts to contain compensation expenses, and to align itself with the Government of Canada's compensation and pension cost initiatives. Improving efficiency has become part of the way of doing business in all of VIA's activities and functions. Lean management has become integrated into key VIA processes and employee pension contributions will increase to 50% of total current pension costs by 2017, aligning with the shift to a balanced 50/50 cost share for the Federal Public Service. VIA has also implemented a number of initiatives to reduce pension costs.

VIA negotiated a three-year labour agreement with Unifor, which was ratified in late July 2013. The previous agreement expired December 31, 2012; the current agreement will expire on December 31, 2015.

The other major labour agreement at VIA is with the Teamsters Canada Rail Conference (TCRC) who represent VIA's locomotive engineers. The current agreement expires on December 31, 2014.

### 7.2 Bill C-60

With the passage of Bill C-60, *The Economic Action Plan 2013 Act*, and pursuant to a government directive (Order in Council PC 2013-1354), VIA is now subject to Treasury Board approval of negotiating mandates on all labour agreements before entering into collective agreements. Additionally, the Treasury Board would be entitled to have a representative monitor the negotiations. The Treasury Board would also have the right to follow a similar process for all non-unionized employees and VIA would require Treasury Board approval before it fixes the terms and conditions of employment of its non-unionized employees who are not appointed by the Governor-in-Council.

VIA will work with Transport Canada and the Treasury Board to ensure that VIA's processes include time for these reviews and potential policy decisions in the setting of negotiating timelines. As well, VIA will ensure that all labour relations activities pertinent to Bill C-60 are reflected within future Corporate Plans.

## 8 FUNDING OVER THE 2014-2018 PLAN PERIOD

VIA's base reference level continues to decline and will be down to $146.8 million in FY 2014-2015. In addition to the base reference level, an additional funding envelope of $259.2 million for FY 2014-2015, together with an anticipated $223.9 million for FY 2015-2016, and $200.3 million for FY 2016-2017 has been identified. This brings the total annual government funding available to VIA to $442.3 million for FY 2014-2015. Anticipated total funding for FY 2015-2016 and FY 2016-2017 would be $370.7 million and $347.1 million respectively, subject to Treasury Board and Parliamentary approval. No additional funding had been identified for FYs 2017-2018 and 2018-2019.

The total VIA government funding required by VIA is $433.5 million for FY 2014-2015, $371.7 million for FY 2015-2016, $352.5 million for FY 2016-2017, $360.4 million for FY 2017-2018 and $370.4 million for FY 2018-2019, for a total of $1,888.5 million.

# 9 OVERVIEW OF THE 2014-2018 OPERATING PLAN

## 9.1 Revenue

### 9.1.1 Growth Strategies

VIA will focus its resources and energy to enhance value to customers and to maximize revenues.

VIA is taking a prudent approach in projecting revenue growth, and forecasts a 3.1% increase in total operating revenues over the period of the Plan, from $270.4 million in 2013 to $278.7 million in 2018. The impact of new train frequencies beginning in 2014 is also included in the expected incremental revenues.

This modest increase assumes a slow recovery from current market conditions and a return to stable growth by 2015, in large measure through the implementation of the following actions.

### 9.1.2 Perceived Value

VIA firmly believes that it offers a truly high-quality product that is reliable, comfortable, convenient, immune from inclement weather, and safe, and that our travelers enjoy a truly superior level of customer service. To further bolster and improve upon the good value that it provides, VIA, leveraging upon the investments made possible by the Government of Canada's $923 million capital investment, is introducing a number of measures to grow revenues including equipment modernization, new frequencies, emphasis on intermediate markets, technological improvements, and station upgrading.

### 9.1.3 Equipment Modernization

Newly refurbished LRC Economy Class coach cars are being put into service in the corridor. These cars have new refreshed interiors with a modern, updated look and are more attractive to the travelling public. A new service offering will be introduced in Economy Class in the corridor, with changes that focus on satisfying the customer, providing an enhanced experience through a revised product offer, personalized contact and attentive and improved service.

As well, newly refurbished LRC Business Class cars are also being introduced. All customer touch points are updated with new business class features, the highlight being the modified 2+1 seating layout with new European seats, the same as those used on high speed trains in Germany. Baggage towers, carpets, washrooms, overhead compartments and lighting are being updated and modernized as well. VIA has also modified its service offering in Business Class, emphasizing the business travelers' need for productive personal time and the ability to use VIA as an office on the move, maximizing their business day. VIA's marketing campaign aims to break a deeply ingrained habit for business travelers of taking the car or the plane for short trips.

Twelve cars of the *Canadian* are being rebuilt with a new, modern interior configuration and amenities commensurate to current travelers' expectations. The accommodations are more spacious and comfortable than the previous 1950's era sleeping car interior. Mobility impaired travelers will have access to cars that will be equipped with wheelchair accessible cabins and integrated on-board wheelchair lifts.

### 9.1.4 New Frequencies

One of the key elements determining the success of intercity train travel is train frequency, the other being trip times. In October 2014, VIA will introduce one additional daily round trip between Toronto and Ottawa. In 2015, VIA will introduce two additional round trips in the Corridor.

9.1.5 Emphasis on Intermediate Markets (Between End-to-End Destinations)

VIA will renew its focus on intermediate stations and the communities they serve. VIA and the service it provides is important to the smaller communities as well as the larger centres. Revenue growth will result from a greater presence and improved service levels in those communities.

9.1.6 Technological Improvements

The progressive implementation of on-train mobile networks using BlackBerry technology, enhanced Wi-Fi investments, while no longer a competitive advantage, has allowed VIA to keep pace with its competitors. This type of convenience and amenity is now expected by the travelling public.

9.1.7 Network Access Points: The Stations

Modernized stations, such as Windsor, Oshawa and Cobourg, along with updated facilities at other stations make the entire travel experience more inviting and competitive. New wheelchair lifts at multiple stations, improved baggage handling equipment that improves customer amenity, and the automation of certain operations to improve customer service, allowing for a more personalized service, and provide more time for the customer and improve efficiency.

## 9.2 Operating Expenses

VIA has taken great efforts, and has achieved considerable success towards the containment of operating expenses and has been able to offset compensation increases and inflation for an extensive period. Productivity measures have been continuously examined and introduced and staffing levels have been reduced, without negatively affecting customer satisfaction. Operating expenses are expected to increase. Significant expense increases are tied to agreements which include provisions for price escalation based on inflation indices. As well, all other goods and services consumed by VIA will also be subject to inflationary pressures.

9.2.1 Operational Constraints and Challenges

9.2.1.1 Host Railways

It is worth noting that passenger trains in Canada are not given operational priority over freight trains, unlike passenger trains in virtually all other countries, including the United States.

The most significant constraint which VIA faces is that 98% of the network of rail infrastructure over which it operates is owned by freight railways. This results with VIA being constrained with relatively long trip times and limited train frequencies that do not allow the competitive edge required to be a market leader, even in the Corridor.

The freight railways have very different interests than those of VIA and accord their own interests the higher priority. Compounding this problem is that freight traffic on railways is increasing and greater congestion is expected.

VIA cannot set its own schedules nor can it readily add frequencies where demand exists, such as in the Montreal-Ottawa-Toronto corridor. Frequency and trip times are the two critical factors that determine the success of intercity passenger rail and these are the two factors which VIA cannot readily improve. These critical factors can only be leveraged on host railway-owned infrastructure and would require significant capital investment, for which VIA does not have the funding.

In addition to the congestion on the infrastructure, VIA also struggles with congestion at Canada's two major train stations: Toronto Union Station and Montreal Central Station.

The host railways control the number of passenger trains allowed in the Corridor, where VIA has the highest demand and where it would be advantageous to introduce additional frequencies

#### 9.2.1.2 Capital Funding and Impacts on Operating Results

Ongoing capital funding is crucial to be able to address capital requirements to maintain VIA's extensive assets in a state of good repair. While the ongoing capital funding identified for the next three fiscal years is sufficient to maintain a state of good repair, it is insufficient to significantly improve the Corporation's financial viability. Nor is it sufficient for major capital requirements, such as equipment replacement or infrastructure investment that would result in trip time improvement or the introduction of additional frequencies.

## 10 2014-2018 CAPITAL INVESTMENT PLAN

### 10.1 Overview

VIA is currently completing the $923 million investment program consisting of $516 million of capital funding approved in 2007, and $407 million of Economic Action Plan funding approved in 2009. The program covers the rebuild of a significant portion of VIA's equipment fleet, the upgrade of the rail infrastructure in the Corridor, a variety of safety enhancements, stations upgrades, and the implementation of critical Information Technology projects. This investment program addresses requirements deferred in the past.

To date, $907 million, or 98% of the total $923 million has been spent, representing approximately 10,400 person-years of direct, indirect and multiplier effect employment versus the 11,000 originally forecast. The following table summarizes the expenses by major program elements.

Table 10.1 – Major Capital Program Components (millions of $)

| Projects | Funding | Spent to Date (end of June 2014) | In Progress |
|---|---|---|---|
| Equipment projects | 287.2 | 277.5 | 9.7 |
| Infrastructure | 467.7 | 461.9 | 5.8 |
| Stations | 56.7 | 56.2 | 0.5 |
| Information technology | 53.9 | 53.9 | - |
| Other | 57.5 | 57.5 | - |
| **Total** | **923.0** | **907.0** | **16.0** |

Major Equipment Projects

- The rebuild of 53 F40 locomotives has been completed at a final cost of $116 million versus a total budget of $131 million. As a result, fuel consumption has been significantly reduced, resulting in $9 million annual savings (versus the $4 million target) and extending the locomotives useful life by up to 20 years.

- Work is continuing on the rebuild of the LRC car fleet. The original scope was revised to include customer amenities and an upgraded interior, including 2+1 seating in Business Class cars. The contract was awarded to Industrial Rail Services Inc. (IRSI) in Moncton, who in 2012 went into receivership. The bankruptcy contributed to project delays and increased costs of this project. However, VIA with the Trustee (Ernst & Young) managed to

successfully complete all the cars that were on production at the time of the bankruptcy. The remaining work was awarded to CAD Railways (Economy Class cars) and to VIA's Montreal Maintenance Centre (Business Class cars). Due to the additional costs, the scope was revised and, as a result, the cars' useful life extended only by 10 years.

- Despite the delays and the increase in cost, 52 of the 97 LRC cars will have been delivered by the end of 2014, with all of the Business Class cars in service. VIA is currently finalizing plans for the completion of the balance of the fleet with an expected completion by the end of 2016.

- Renaissance cars accessibility reconfigurations have been performed to meet regulatory requirements regarding accessibility. The contract was awarded to IRSI and six cars were completed at the time of IRSI's bankruptcy. The remaining work was transferred to VIA's Maintenance Centre, and as of October 2012, every Renaissance train has an Accessible coach and every train set in overnight service has an Accessible cabin. Structural modifications to meet Transport Canada requirements have also been performed.

- Six RDC cars assigned to Victoria-Courtenay and Sudbury-White River services have been rebuilt to improve reliability, enhance customer amenities, provide more baggage space and full Accessibility. The useful life was also extended up to 20 years. All six cars have now been completed and three are in operation while three are stored pending resumption of service on Vancouver Island.

- A major overhaul of the HEP1 cars assigned to the *Canadian* has been performed to refresh the interiors. In addition, 12 reconfigured HEP1 cars, with new interiors and systems and with improved Accessibility, that will constitute the Prestige Class offered on the *Canadian*, are being completed. The first car is in operation as of mid-August 2014, with the remaining gradually being introduced. Full implementation is expected by summer 2015.

Infrastructure Projects

- Work on the CN Kingston Subdivision is now completed. This included work at Coteau, Cedars, Ballantyne and Turcot, the construction of 41 miles of third track between Kingston and Toronto, and 2 miles of new track for signaling and crossings. As a result, VIA has introduced four additional trains between Toronto and Ottawa (two Montreal-Toronto re-routed via Ottawa) and will be adding 1 more round trip in October 2014 and two more in 2015.

- Work on VIA's Smiths Falls Subdivision and on CP's Brockville Subdivision was completed in 2013. In addition to allowing more train frequencies, the investment resulted in the elimination of non-signaled territory and in greater flexibility to the operation as sidings were built.

- Investments in VIA's Alexandria Subdivision were completed in the 2007-2011 period, and undertaken to improve safety and reliability of operations and increase capacity. Work included improvements to the Centralized Traffic Control signal system and level crossing protection, the construction of a passing track, and the conversion of jointed rail to continuous rail.

- The investment in the Toronto-London (via Kitchener) route is intended to eliminate non-signaled territory and to upgrade automatic road crossing warning systems. The work is currently ongoing and is expected to be completed in 2014.

- The investment in VIA's Chatham Subdivision has been completed and has resulted in the elimination of non-signaled territory, the upgrade of rail, and the addition of a siding, thus enhancing the safety of train operations.

CN Kingston Subdivision Stations

- Capital funding was invested in three stations, Oshawa, Cobourg and Belleville, to allow for a more efficient and flexible operation, and to introduce new frequencies. The Work was completed. Belleville is now modernized with improved passenger waiting areas and washrooms. In all three stations, the overhead footbridge structures and island platforms enhance the safety of passengers and provide capacity for more trains and operational flexibility.

Information Technology

- With the availability of the capital program funding, VIA identified its revenue management system as a priority. VIA now has a new automated system that is designed to optimize sales at the right price. The system provides flexibility in the pricing grid and can apply a seating allocation strategy for every departure of every train. The new system positions VIA at the same level as its competitors, and is an asset used in the travel and hospitality industries to maximize revenues.

- Funds have also been allocated and spent to upgrade VIA's Wi-Fi system in the Corridor to a more robust and reliable system, providing more bandwidth capacity. VIA now has a system that allows the leveraging of the customer experience in the Corridor, building on the theme of productivity onboard and on personal, private time. The system helps in maintaining VIA's position in the market by enhancing the customer experience. VIA has also introduced Wi-Fi on the *Ocean* based on the successful experience from the implementation in the Corridor.

- VIA has also introduced e-ticketing aiming at improving the customer service, the entraining and detraining of passengers at each stop, the provision of faster and better service onboard and at the stations. The e-ticketing is now part of a core service element and has significantly streamlined the ticket purchase and verification process resulting in significant cost reductions for VIA and significant time savings for customers.

Capital Projects (ongoing funding)

Projects covered by the ongoing capital funds, and implemented since 2012 include:

- HEP safety upgrades and heat tracing;
- Rolling stock water hygiene;
- Potable water management program, including upgrade of facilities and distribution system at various linepoints;
- Onboard bearing temperature monitoring for HEP1 and HEP2 cars;
- Track programs and bridge repairs on VIA's infrastructure (Alexandria, Beachburg and Smiths Falls Subdivisions);
- Bridge scouring and repair works on Chatham subdivision;
- Centralized Train Control replacement at Coteau-De Beaujeu;
- Project at Toronto Union station;
- Winnipeg Station building improvements;
- Baggage carts;
- Head Office space planning; and

- A number of IT projects, including mainframe migration, implementation of the near time train status information, on-train entertainment system, an interactive train information and communication system, workforce-management related systems and systems for remote electronic surveillance.

## 10.2 Requirements for 2014 to 2018

Funding has been identified for ongoing capital requirements for the first three fiscal years of the Corporate Plan (FY 2014-2015, FY 2015-2016 and FY 2016-2017). The last two years remain unfunded.

### 10.2.1 Ongoing Capital Requirements

VIA has to maintain its extensive asset base in a state of good repair. These include interventions on its fleet and on-board equipment, stations, maintenance plants and other facilities, machinery and tooling, and computer systems.

VIA must also adhere to health, safety, security and regulatory requirements that may result in modifications to the equipment, in track and system upgrades, station and facilities improvements and maintenance of its information technology software and hardware.

Ongoing capital is also required to ensure reliable, efficient and economical operations in support of the various revenue optimization and productivity improvement initiatives.

### 10.2.2 Other Major Requirements

#### 10.2.2.1 Fleet Renewal

Fleet renewal is an integral part of VIA's long-term strategic plan. The useful life of rolling stock is approximately 25 to 30 years. Even though some of the fleet has been rebuilt, this only extends the useful life by a maximum of 10 years for the LRC cars and up to 20 years for the F40 locomotives. The purchase of new locomotives and rail cars is not a simple process and it can take several years to develop performance specifications, tender the work, award the contract and construct the locomotives and rail cars.

In the Corridor

VIA's LRC cars are the mainstay of its intercity Corridor services fleet. These rebuilt cars will have a useful life extension of up to 10 years and, therefore, they must be replaced by the year 2025 with new intercity passenger cars. Since equipment procurement is a long and complex process that requires detailed engineering and commitments, efforts must commence in the near future. Specific funding will have to be identified by the end of this Corporate Plan.

This replacement must also include the 33 HEP 2 cars, originally manufactured in the 1940's and also used in Corridor services. The GE fleet of locomotives used in Corridor services will have to be replaced or modernized and upgraded.

Long-haul Services

The Renaissance equipment (now 10 to 15 years old) used in the East is undergoing overhaul with limited impact on life extension. Some modifications are also required to meet market demands. This will be in part covered by the ongoing annual capital funding.

VIA is completing the reconfiguration of 12 of the 173 HEP1 cars used in Western Long-Haul services. This reconfiguration is expected to yield enhanced customer amenities with new interiors

and systems, as well as providing Accessibility. The remainder of the HEP1 fleet will get a refresher of their interiors. In the longer term, these cars will require, as a minimum, a major upgrade and modernization, or a full replacement.

Similarly to the Corridor fleet, procurement efforts must start in the near future and funding identified by the end of the Planning period.

Other Services

Investment in portions of the fleet operating on train services with declining revenues such as the remotes and regional services will be minimized.

10.2.2.2 Additional Infrastructure Investments

VIA will invest primarily in VIA-owned track for additional frequencies or reliability, and will identify and pursue strategic infrastructure acquisitions in the Corridor. In the short term, VIA will implement ongoing track work to keep the roadway in a state of good repair. This includes track programs and ties replacement, bridge repairs, signaling system work, and additional sidings.

10.2.2.3 The Stations

Stations Land Development

VIA will leverage its real estate assets as a strategy to increase its ridership, enhance the travel experience and to improve its bottom line. VIA intends to pursue this strategy by developing underutilized parcels of land at key stations. Such developments would complement the stations and provide additional convenience, services and amenities to both the travelling and non-travelling public. A side benefit would be to attract more customers through increased traffic around stations. This would allow VIA to pursue its strategy of improving customer experience while increasing revenues and reducing the Corporation's funding requirements.

Ownership of Stations

VIA will consider opportunities to increase usage of its stations while maintaining or improving services to its customers by considering all options available, including transfer of ownership to communities. By doing so, VIA seeks greater community involvement and participation in its service. It is anticipated that the participation of the local communities will improve the level of service to the traveling customers, and positively impact the welfare of the community it serves.

10.2.2.4 Research and Development Projects

VIA is a member of the Railway Research Advisory Board, an industry committee that advises Transport Canada on common research priorities focusing mainly on safety research common for the Canadian rail industry.

Potential research and development activities are:

- Identifying and testing potential modifications to the rolling stock to improve aerodynamics, thus reducing fuel consumption;
- Engineering and testing of a modern electronic system for wheel-slide protection on the stainless steel HEP1 fleet currently equipped with an obsolete mechanical system, which is expensive to maintain and may not prevent wheel damage;
- A wheel profile study to compare VIA's rolling stock wheels to rail interfaces with latest research and test new wheel profile to improve dynamic stability and reduce wheel and rail wear;

- A review of the current vehicle dynamics (locomotives and cars) to improve ride quality with positive impacts on ridership; and
- Testing of an anti-icing system required to prevent ice build-up under rolling stock in winter, thus improving reliability, reducing maintenance efforts for de-icing to allow inspections and improving ride quality.

## 11 ISSUES AND MAJOR RISKS

This section outlines the issues and risks that the Corporation will face over the planning horizon, and describes the Corporation's strategies aimed at mitigating these risks. VIA performs a semi-annual business risk and control assessment which allows the Executive to update risks for review with the Audit and Risk Committee of the Board. The process was expanded by including regular discussions at Management Committee on the most important risks with the objective of increasing mitigation measures when required and possible.

### 11.1 Safety of Passengers, Employees and the Public

#### Safety

The safety of our passengers, employees and the public is VIA's primary concern.

A collision, derailment, crossing or a pedestrian accident will have tremendous human impact. Similarly, contaminated food items or beverages could also pose a safety concern to our passengers. In addition to the human impacts, these occurrences can also pose financial, environmental and reputational impacts.

VIA maintains an excellent safety record with a strong safety culture.

VIA has identified mitigation measures such as:

- Adhering to and exceeding government regulations.
- Regular inspections of track infrastructure rolling stock.
- Training personnel to the highest safety standards.

#### Security

The alleged 2013 terrorist threat, now before the courts, to a VIA train has heightened the importance of constant vigilance.

VIA recently hired a security consultant to assess VIA's state of readiness in the event of a terrorist threat, as well as to perform a gap analysis. VIA has received the report and is currently reviewing the recommendations.

VIA will also undertake a benchmarking exercise to identify best practices. VIA's Director of Security is now a VIA-dedicated certified police inspector. He acts as the coordination point between VIA and law enforcement agencies and intelligence services, and is in continuous contact with them.

### 11.2 Employee Engagement

VIA recognizes that employee engagement is crucial to VIA's continued success in a highly competitive travel and tourism sector, where excellent customer service is one of VIA's critical success factors. VIA repeatedly scores well on customer service surveys, this being an area where VIA has a competitive advantage. This is also one of the facets of the global customer experience where VIA has full control.

New employees are hired based on a defined grid of core competencies, ensuring that values and competencies, in particular the ability to provide excellent customer service, are present at every level of the organization.

A talent development program has been implemented in the corporation whereby key individuals are temporarily assigned to positions to enable them to understand different aspects of the business. In addition, VIA is constantly fine tuning its succession plan to ensure that the best individuals occupy critical positions. An employee recognition program, aligned with VIA's business strategies and corporate competencies, is being implemented. These measures will help VIA to create a better workplace with an engaged workforce.

VIA has a succession planning program in place to retain talent and replace critical positions as they are vacated. Management and administrative employees are required to create a development plan. Progress is reviewed regularly with their supervisors. With respect to unionized employees, a "spare board" – a pool of qualified on-call employees – is trained yearly before each peak period and provides a supply of employees, as needed.

## 11.3 Funding Considerations

VIA continues to move forward with respect to aligning itself with cost directives outlined by the Federal Government as well as moving forward with revenue enhancement initiatives. VIA will work with Transport Canada and Central Agencies to address its requirements for operating, capital and pension funding.

## 11.4 Revenue

VIA's total revenues have been depressed and have increased by only 2% since 2009. Specifically, passenger revenue has declined by 3% in both 2012 and 2013 and is down 0.3% since 2009.

As a result of the great recession, VIA's anticipated revenues, as it was the case with other carriers, did not materialize. While train service reductions are responsible for a portion of this decline, slow economic growth, worsening on-time performance, and the strong competition in VIA's two strongest markets have negatively affected revenue.

VIA has decided to take a more prudent approach in projecting revenue growth, and forecasts a 3.1% increase in total operating revenues over the period of the Plan, from $270.4 million in 2013 to $278.7 million in 2018.

As part of VIA's ongoing management processes, revenue performance in all sectors is analyzed and forecasts are revised on a continuous basis. As a result, VIA is continually revising its revenue maximization strategies and has implemented the following revenue growth initiatives:

- the introduction of additional trains in the Corridor;
- the introduction of refurbished, modernized coach and business class cars;
- the introduction of new or refurbished, modernized stations, that offer improved customer amenities and service;
- the introduction of refurbished sleeping cars for VIA's Toronto-Vancouver service, the *Canadian;*
- a new booking engine with more features like fare shopping;
- a new revenue management system providing more flexibility to change fares on a continuous basis according to demand; and
- the introduction of e-ticketing which provides enhanced customer service.

These initiatives have positioned VIA at the level of its competitors and helped to maintain revenue in the face of very strong competition. As well, as more passenger booking data is accumulated by the revenue management system, strategies are being fine-tuned to improve allocation of seat capacity to different fare classes in order to stimulate and retain customers.

## 11.5 Infrastructure

### Cost and Adequacy of Track Access

CN owns 82% of the infrastructure on which VIA passenger trains operate, and shares in the benefits accruing from the infrastructure investments which VIA is making in the Corridor. Joint passenger/freight benefits include: eliminating operational obstacles at stations where passenger trains stop to entrain/detrain; harmonizing mainline train operations with freight yard switching; and adding capacity (new sidings or segments of third track) at locations where the level of train activity produces bottlenecks.

VIA and CN have agreed on an incentive framework towards maintaining and improving on-time train reliability while ensuring VIA is able to introduce new frequencies and schedules between Montreal-Ottawa-Toronto now that the infrastructure improvement projects have been completed. Train schedules are now adjusted in anticipation of seasonal work programs through better consultation with CN to avoid systemic train delays that erode customer satisfaction and lead to increased service recovery costs.

In addition, the Canadian Transportation Agency (CTA) had previously rendered, on May 17, 2013, a decision to a complaint by CP that the new frequencies would interfere with its train operations at Smiths Falls. The CTA's decision ordered CP to allow VIA's requested three additional round trips on CP's infrastructure without the need for VIA to make any additional investments. Further regulatory relief may be sought should conditions so warrant.

Notwithstanding, services provided to VIA by the host railways, particularly on time performance (OTP), have been deteriorating. As an example, the following table outlines the on-time performance of the *Canadian* over the last five years:

| Year | OTP |
|---|---|
| 2009 | 84% |
| 2010 | 84% |
| 2011 | 74% |
| 2012 | 70% |
| 2013 | 60% |

Note: The *Canadian's* year-to-date on-time performance from January to June 2014 is 32% compared to 56% for the same period in 2013.

The rail infrastructure between Toronto and Vancouver is a single track mainline to transport goods across Canada and internationally through various ports. Freight traffic has grown rapidly during recent years, causing capacity issues on the rail infrastructure. In addition, the backlog of grain supplies in 2013/2014 has resulted in an increase in traffic, exacerbating the situation. Significant delays can accumulate during the *Canadian's* 4-day trip, with negative impact on VIA's ridership and revenues, especially on the tour operator business, representing approximately 20% of the passenger revenue of the *Canadian*. Tour operators have indicated their dissatisfaction with VIA's poor reliability and have threatened to cancel bookings.

**Railway Track Segments Abandoned by Owners**

The *Canada Transportation Act* provides a mechanism for the discontinuance of service on sections of track which the infrastructure owner considers no longer economically viable. Before a federally regulated railway company can abandon a section of track, it must list the line on its three-year network plan for at least one year. The line must then be listed for sale, lease or transfer – first to private interests and then to each level of government. The process to find a buyer can take up to six months; however, it may take longer. If no interested buyer can be found, the railway company has the right to discontinue service on the line and abandon it.

VIA's long-haul overnight train, the *Ocean*, which runs between Montreal and Halifax, travels over CN infrastructure for its entire route. This route includes the Newcastle subdivision, which is in the province of New Brunswick.

CN included the Newcastle Subdivision on its discontinuance list. In January 2014, the Government of New Brunswick and CN announced that the provincial government would invest $25 million in track infrastructure improvements on the Newcastle Subdivision to benefit freight traffic. In return, CN committed to spend a comparable amount for a 15-year period on rail line where there are active freight rail customers.

However, on the portion of the Newcastle Subdivision where there are no active freight rail customers, the section where VIA alone operates, was excluded from this agreement and CN sought to discontinue rail operations. This 44-mile section of the Newcastle Subdivision is between the railway points of Nelson Junction and Nepisiguit Junction, between Bathurst and Miramichi.
On February 3, 2014, CN published a notice to abandon this 44-mile section. This abandonment would have effectively truncated the route of the *Ocean* and the Montreal-Halifax train service. Coincidentally, this possible abandonment could have taken place at approximately the same time as the 110th anniversary of the *Ocean*, in early July 2014.

With the goal of maintaining the current passenger rail operations in New Brunswick, discussions were held between CN and VIA. As a result of these dicussions, it is agreed that VIA would invest $10.2 million for the required infrastructure repairs and with that, the 44-mile section of the Newcastle Subdivision would remain in service.

**Quality of Other Tracks (Shortlines)**

Most shortline owners originally acquired their infrastructure following previous line abandonments by Class 1 Railroads (CN and CP). The majority of VIA's regional and remote train services depend on shortlines for track access, and train performance has steadily deteriorated due to deferred maintenance and lack of investment in the infrastructure.

Infrastructure on some shortlines is not maintained to the same standards as Class 1 Railroads. As a result on train performance and reliability can deteriorate, resulting with slow orders, schedule delays together with additional costs and liabilities. Concurrent to incurring these additional costs, the service operating over the degraded shortline infrastructure becomes less competitive due to the added trip time. In certain notable instances, VIA had to suspend service altogether.

Mitigation measures for those instances where track conditions have resulted with a deterioration of train performance are, dependent upon specific circumstances and conditions, largely restricted to schedule adjustments. Mitigations measures can however, if necessary, range from service truncation, temporary alternate transportation and service cancellation.

## 11.6 Quality and Reliability of Equipment

VIA has completed, or has ongoing a number of equipment refurbishment projects such as:

- The completed rebuild of 53 F40 locomotives;
- The continuing rebuild of the LRC car fleet;
- Renaissance cars accessibility modifications;
- The completed rebuild of six RDC cars;
- The overhaul of 72 HEP1 cars assigned to the *Canadian* and the reconfiguration of 12 HEP1 cars that will constitute the Prestige Class; and
- The overhaul of the entire fleet of 21 P42 locomotives.

While these equipment refurbish projects have provided, or will provide, VIA with a modernized and more reliable fleet, fleet renewal is an integral part of VIA's long-term strategic plan. The useful life of rolling stock is approximately 25 to 30 years. Even though rebuilt, this only extends the useful life by a maximum of 10 years for the LRC cars, the mainstay of VIA's intercity Corridor services fleet, and up to 20 years for the F40 locomotives. The purchase of new locomotives and rail cars is not a simple process and it can take years to develop performance specifications, tender the work, and award the contract. As well, the subsequent manufacture of locomotives and rail cars will also be lengthy multi-year projects.

## 11.7 Fuel Cost Fluctuations

Fuel is a significant cost element. Given the high consumption of fuel, any reduction of the consumption results in significant cost savings. VIA continues to ensure that the consumption of fuel is reduced as much as possible.

Locomotive fuel consumption continues to decline and budget targets were very aggressive (by 14 million litres since 2007 or 24% at the end of 2012) as more rebuilt locomotives return to service and are assigned to longer routes where greater fuel efficiency can be achieved. Trackside electrical power has been installed at many locations where trains layover to limit excessive engine idling (and avoid noise abatement action). Locomotive telemetry provides operating data to deliver feedback to engineers on the road and during training programs, and a series of other initiatives are implemented to continue to improve fuel efficiency.

In addition, the recent rebuild of the F40 locomotive fleet has achieved fuel savings with the installation of an auxiliary generator that provides hotel (in-train) power, a layover heating system allowing the locomotives to be turned off in cold weather and a system that eliminates the need for locomotives to idle continuously in cold weather as it will automatically turn the locomotive back on once the engine drops to a certain temperature.

In addition to consumption, the price at which VIA purchases fuel varies significantly due to the uncertainty and volatility of fuel prices. VIA uses financial instruments to hedge its exposure to fuel prices and related currency risk, which adds certainty to future fuel costs and has delayed the impact of fuel price fluctuations.

VIA has hedged the majority of its diesel fuel requirements. Given the current hedged position, for every $5 variation in the price per barrel of West Texas Intermediate, VIA's cost could increase/decrease by $0.3 million all else being equal. VIA has hedged approximately 50% of its commodity price exposure related to fuel purchases in 2014 and 10% for 2015.

Given that contracts used to hedge fuel prices are denominated in United States dollars, VIA also hedges against foreign exchange risk.

## 11.8 Train Services Affected by Infrastructure Issues

Infrastructure on some shortlines is not maintained to the same standards as Class 1 Railroads. To maintain safety, speeds are often reduced through slow orders, which results in poorer on-time

performance and reliability. In certain instances, VIA has had to suspend service altogether. Mitigation measures are dependent upon specific circumstances and conditions, but are largely restricted to schedule adjustments. However, mitigation measures can, if necessary, include service truncation, temporary alternate transportation or service cancellation.

The majority of VIA's Regional and Remote train services depend on shortlines for track access, and train performance has steadily deteriorated due to deferred maintenance and lack of investment in the infrastructure. For this reason, train service has been suspended on Vancouver Island and along the Gaspé coast, pending repairs to deteriorating track and bridge structures by the shortline railways who own the infrastructure.

Vancouver Island

In April 2011, VIA ceased operating the daily train service between Victoria and Courtenay on Vancouver Island due to the deteriorated condition of the infrastructure.

As of April 2014, VIA and Southern Railway of Vancouver Island (SVI) have come to an agreement regarding the resumption of service. Before this service can operate, infrastructure repairs and upgrades are required. VIA will not allow the service to operate until it is satisfied that it is safe to do so.

Gaspé Peninsula

The regional train service between Matapédia and Gaspé in Eastern Quebec remains suspended due to deteriorated infrastructure. To date, the owners have not confirmed when the necessary upgrades will be completed.

## ANNEX 1 – KEY FINANCIAL TABLES

# VIA RAIL CANADA INC.
## 2014 - 2018 CORPORATE PLAN
## OPERATING FUNDING STATEMENT

**VIA FISCAL YEAR ENDING DECEMBER 31**

| (MILLIONS OF DOLLARS) | ACTUAL 2011 | ACTUAL 2012 | ACTUAL 2013 | 2014* | 2015 | PLAN 2016 | 2017 | 2018 | TOTAL 2014-2018 | % Change 2018 vs 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | | | |
| **Total Operating Revenues** | **282.8** | **276.9** | **270.4** | **266.7** | **267.3** | **268.9** | **273.3** | **278.7** | **1,354.9** | **3.1%** |
| **EXPENSES** | | | | | | | | | | |
| **Total Operating Expenses** | **499.6** | **485.8** | **490.1** | **509.0** | **525.5** | **538.7** | **549.0** | **563.1** | **2,685.2** | **14.9%** |
| **Operating Deficit Before Government Subsidy and Pension Costs** | **(216.8)** | **(208.9)** | **(219.7)** | **(242.3)** | **(258.2)** | **(269.8)** | **(275.7)** | **(284.3)** | **(1,330.3)** | **29.4%** |
| less: Government Operating Funding - Reference Level | 175.3 | 166.4 | 153.8 | 147.9 | 146.8 | 146.8 | 146.8 | 146.8 | 735.1 | |
| less: Transfer between capital and operating | (8.3) | - | 3.6 | 20.7 | - | - | - | - | 20.7 | |
| less: Supplementary Government Operating Funding | 49.7 | 42.5 | 62.3 | 73.8 | 92.7 | 91.1 | - | - | 257.6 | |
| **Operating Funding Surplus / (Deficit) before Pension Costs** | - | - | - | - | **(18.7)** | **(31.9)** | **(128.9)** | **(137.5)** | **(317.1)** | |
| **PENSION COSTS** | | | | | | | | | | |
| **Total Pension Costs** | **44.1** | **70.2** | **87.9** | **82.7** | **43.0** | **19.0** | **20.0** | **21.0** | **185.7** | **-76.1%** |
| less: Supplementary Government Pension Funding | 44.1 | 70.2 | 87.9 | 82.7 | 43.0 | 19.0 | - | - | 144.7 | |
| **Pension Costs Funding Surplus / (Deficit)** | - | - | - | - | - | - | **(20.0)** | **(21.0)** | **(41.0)** | |
| **Operating Surplus / (Deficit) after Government Funding** | - | - | - | - | **(18.7)** | **(31.9)** | **(148.9)** | **(158.5)** | **(358.1)** | |

*** Including an additional pay period**

NOTE: May not add due to rounding

## VIA RAIL CANADA INC.
## 2014 - 2018 CORPORATE PLAN
## SUMMARY - TOTAL CAPITAL EXPENDITURES

**VIA FISCAL YEAR ENDING DECEMBER 31**

| (MILLIONS OF DOLLARS) | ACTUAL | ACTUAL | ACTUAL | PLAN | | | | | TOTAL | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007-2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2014-2018 | 2007-2018 |
| **MAJOR CAPITAL PROGRAMS** | | | | | | | | | | |
| Equipment Projects | 166.9 | 49.1 | 23.8 | 37.8 | 25.3 | 14.2 | 3.3 | - | 80.6 | 320.3 |
| Infrastructure Projects | 366.5 | 69.9 | 21.4 | 17.1 | 6.3 | 2.0 | 2.0 | 2.2 | 29.6 | 487.4 |
| **Sub Total Major Programs** | **533.4** | **119.0** | **45.2** | **54.9** | **31.6** | **16.2** | **5.3** | **2.2** | **110.1** | **807.8** |
| **OTHER CAPITAL PROGRAMS** | **143.6** | **51.3** | **51.0** | **49.7** | **62.7** | **45.8** | **56.8** | **57.8** | **272.8** | **518.7** |
| **TOTAL CAPITAL EXPENDITURES** | **677.0** | **170.3** | **96.2** | **104.6** | **94.3** | **62.0** | **62.1** | **60.0** | **382.9** | **1,326.4** |
| less: use of Asset Renewal Fund (ARF) | (12.3) | (3.1) | (5.4) | (2.6) | (2.0) | (2.0) | (2.1) | - | (8.6) | (29.4) |
| Transfer of Operating Funding (to) | (10.0) | (8.3) | 3.6 | 20.7 | - | - | - | - | 20.7 | 6.0 |
| **Gov't Capital Funding Required** | **654.7** | **158.9** | **94.4** | **122.6** | **92.3** | **60.0** | **60.0** | **60.0** | **395.0** | **1,303.0** |
| **Total Gov't Capital Funding** | **654.7** | **158.9** | **94.4** | **122.6** | **92.3** | **60.0** | **15.0** | - | **290.0** | **1,198.0** |
| **Funding Shortfall / (Surplus)** | - | - | - | - | - | - | **45.0** | **60.0** | **105.0** | **105.0** |
| **Additional Funding Required** | - | - | - | - | - | - | **45.0** | **60.0** | **105.0** | **105.0** |

NOTE: May not add due to rounding

VIA RAIL CANADA INC.

## 2014 - 2018 CORPORATE PLAN

### FUNDING REQUIREMENTS AND SOURCES

VIA FISCAL YEAR ENDING DECEMBER 31

| (MILLIONS OF DOLLARS) | ACTUAL 2007-2011 | ACTUAL 2012 | ACTUAL 2013 | 2014 | 2015 | PLAN 2016 | 2017 | 2018 | TOTAL 2014-2018 | TOTAL 2007-2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GOVERNMENT FUNDING AVAILABLE** | | | | | | | | | | |
| Reference Level | 1,003.3 | 166.4 | 153.8 | 147.9 | 146.8 | 146.8 | 146.8 | 146.8 | 735.1 | 2,058.5 |
| Funding for MOS - Stimulus Package | 20.0 | - | - | - | - | - | - | - | - | 20.0 |
| Additional Operating Funding | 158.5 | 112.7 | 150.2 | 173.8 | 171.7 | 145.1 | - | - | 490.6 | 912.1 |
| **Total Operating Funding - 2013 Corp Plan (2013-14 ARLU)** | **1,181.8** | **279.1** | **304.0** | **321.7** | **318.5** | **291.9** | **146.8** | **146.8** | **1,225.6** | **2,990.5** |
| Reference Level | 274.9 | 125.3 | 62.5 | 44.3 | 8.9 | - | - | - | 53.2 | 516.0 |
| Additional Capital Funding - Stimulus Package | 379.8 | 7.2 | - | - | - | - | - | - | - | 387.0 |
| Additional Capital Funding | - | 26.4 | 52.7 | 80.9 | 60.0 | 60.0 | 15.0 | - | 215.9 | 295.0 |
| **Total Capital Funding - 2013 Corp Plan (2013-14 ARLU)** | **654.7** | **158.9** | **115.2** | **125.2** | **68.9** | **60.0** | **15.0** | **-** | **269.1** | **1,198.0** |
| **Total Gov't Funding Available - 2013 corp plan (2013-14 ARLU)** | **1,836.5** | **438.1** | **419.2** | **446.8** | **387.4** | **351.9** | **161.8** | **146.8** | **1,494.7** | **4,188.5** |
| **VIA FUNDING REQUIREMENTS** | | | | | | | | | | |
| Operating Deficit Before Pension Costs | 1,099.5 | 208.9 | 219.7 | 242.3 | 258.2 | 269.8 | 275.7 | 284.3 | 1,330.3 | 2,858.5 |
| Less Use of Asset Renewal Fund (ARF) | (35.0) | - | - | - | - | - | - | - | - | (35.0) |
| Transfer Operating Funding to Capital Funding | 18.3 | - | (3.6) | (20.7) | - | - | - | - | (20.7) | (6.0) |
| **Total Operating Funding required** | **1,082.8** | **208.9** | **216.1** | **221.7** | **258.2** | **269.8** | **275.7** | **284.3** | **1,309.7** | **2,817.6** |
| Capital Expenditures | 677.0 | 170.3 | 96.2 | 104.6 | 94.2 | 62.0 | 62.1 | 60.0 | 382.8 | 1,326.4 |
| Less Use of Asset Renewal Fund (ARF) - Capital | (12.3) | (3.1) | (5.4) | (2.6) | (2.0) | (2.0) | (2.1) | - | (8.6) | (29.4) |
| Transfer Operating Funding to Capital Funding | (10.0) | (8.3) | 3.6 | 20.7 | - | - | - | - | 20.7 | 6.0 |
| **Total Capital Funding required** | **654.7** | **158.9** | **94.4** | **122.7** | **92.2** | **60.0** | **60.0** | **60.0** | **395.0** | **1,303.0** |
| **Pensions Costs Funding required** | **99.0** | **70.2** | **87.9** | **82.7** | **43.0** | **19.0** | **20.0** | **21.0** | **185.7** | **442.7** |
| **Total Via Gov't Funding Required** | **1,836.5** | **438.1** | **398.4** | **427.0** | **393.4** | **348.8** | **355.7** | **365.3** | **1,890.4** | **4,563.3** |
| **FUNDING DEFICIT** | | | | | | | | | | |
| Operating Funding Surplus / (Deficit) | - | - | - | 17.3 | 17.3 | 3.1 | (148.9) | (158.5) | (269.8) | (269.7) |
| Capital Funding Surplus / (Deficit) | - | - | 20.8 | 2.5 | (23.3) | - | (45.0) | (60.0) | (125.8) | (105.0) |
| **Total Funding Surplus/(deficit)** | - | - | **20.8** | **19.8** | **(6.0)** | **3.1** | **(193.9)** | **(218.5)** | **(395.6)** | **(374.8)** |
| **ADDITIONAL FUNDING REQUESTED** | | | | | | | | | | |
| Additional Operating Funding - Operating Deficit Before Pension | - | - | - | - | 18.7 | 31.9 | 128.9 | 137.5 | 317.1 | 317.1 |
| Additional Capital Funding | - | - | - | - | - | - | 45.0 | 60.0 | 105.0 | 105.0 |
| Additional Operating Funding - Pension Plans | - | - | - | - | - | - | 20.0 | 21.0 | 41.0 | 41.0 |
| **Total Additional Funding Requested** | - | - | - | - | **18.7** | **31.9** | **193.9** | **218.5** | **463.1** | **463.1** |
| **CAPITAL FUNDING REPROFILLING** | | | | | | | | | | |
| New Proposed Reprofiling of Capital Funding | - | - | (20.8) | (2.5) | 23.3 | - | - | - | 20.8 | - |
| **Total Capital Funding Reprofilling Requested** | - | - | **(20.8)** | **(2.5)** | **23.3** | - | - | - | **20.8** | - |

NOTE: May not add due to rounding

# VIA RAIL CANADA INC.
## 2014 - 2018 CORPORATE PLAN
## STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
## (MILLIONS OF DOLLARS)

| | ACTUAL | ACTUAL | | | PLAN | | |
|---|---|---|---|---|---|---|---|
| **Year ended December 31** | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Revenues** | | | | | | | |
| Passenger | 257.0 | 249.1 | 246.7 | 246.8 | 248.0 | 252.0 | 257.0 |
| Other | 20.6 | 21.3 | 20.1 | 20.5 | 20.9 | 21.3 | 21.7 |
| | **277.6** | **270.4** | **266.8** | **267.3** | **268.9** | **273.3** | **278.7** |
| **Expenses** | | | | | | | |
| Compensation and employee benefits | 266.9 | 266.9 | 263.3 | 272.3 | 278.8 | 284.5 | 290.2 |
| Train operations and fuel | 123.9 | 122.9 | 123.1 | 132.3 | 137.3 | 140.2 | 146.7 |
| Stations and property | 34.0 | 35.0 | 36.0 | 36.7 | 37.4 | 38.1 | 38.9 |
| Marketing and sales | 29.2 | 29.8 | 29.5 | 32.0 | 32.5 | 33.1 | 33.8 |
| Maintenance material | 29.3 | 27.0 | 31.3 | 32.3 | 33.0 | 33.7 | 34.4 |
| On-train product costs | 15.5 | 15.5 | 16.4 | 16.2 | 16.6 | 17.1 | 17.5 |
| Operating taxes | 9.6 | 9.3 | 10.5 | 10.7 | 10.9 | 11.1 | 11.3 |
| Professional services | 9.6 | 9.2 | 9.4 | 9.6 | 9.8 | 10.0 | 10.2 |
| Telecommmunications | 10.1 | 11.7 | 11.9 | 12.1 | 12.3 | 12.5 | 12.8 |
| Amortization and losses on write-down and disposal of property, plant and equipment and intangible assets | 71.9 | 83.4 | 72.5 | 74.8 | 79.2 | 84.7 | 84.9 |
| Unrealized loss (gain) on derivative financial instruments | 1.4 | (2.1) | | | | | |
| Realized loss (gain) on derivative financial instruments | (1.6) | (0.7) | | | | | |
| Other | 12.5 | 10.2 | 17.6 | 20.5 | 20.3 | 19.9 | 19.4 |
| | **612.3** | **618.1** | **621.5** | **649.5** | **668.1** | **684.9** | **700.1** |
| **Operating loss before funding from the Government of Canada and corporate taxes** | **334.7** | **347.7** | **354.7** | **382.2** | **399.2** | **411.6** | **421.4** |
| Operating funding from the Government of Canada | 279.1 | 307.6 | 325.0 | 282.5 | 256.9 | 146.8 | 146.8 |
| Amortization of deferred capital funding | 82.0 | 82.4 | 71.0 | 72.7 | 77.0 | 82.5 | 82.7 |
| **Income (loss) before corporate taxes** | **26.4** | **42.3** | **41.3** | **(27.0)** | **(65.3)** | **(182.3)** | **(191.9)** |
| Corporate tax expense (recovery) | - | (0.4) | (0.5) | (0.5) | (0.5) | (0.5) | (0.5) |
| **Net income (loss) for the year** | **26.4** | **41.9** | **40.8** | **(27.5)** | **(65.8)** | **(182.8)** | **(192.4)** |
| **Amounts not to be reclassified subsequently to net income:** | | | | | | | |
| Actuarial gains (losses) on defined benefit plans | (101.2) | 303.6 | - | - | - | - | - |
| **Other comprehensive income (loss) for the year** | **(101.2)** | **303.6** | - | - | - | - | - |
| **Total comprehensive income (loss) for the year** | **(74.8)** | **345.5** | **40.8** | **(27.5)** | **(65.8)** | **(182.8)** | **(192.4)** |
| **Reconciliation of operating loss to government funding** | | | | | | | |
| **Operating loss before funding from the Government of Canada for the period and corporates taxes** | **334.7** | **347.7** | **354.7** | **382.2** | **399.2** | **411.6** | **421.4** |
| Items requiring (providing) operating funds: | | | | | | | |
| Income tax expense (recovery) | | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Items not requiring (not providing) operating funds: | | | | | | | |
| Depreciation, amortization, impairment and losses on disposal of property, plant | (82.7) | (83.4) | (72.5) | (74.8) | (79.2) | (84.7) | (84.9) |
| Post-employment and other employee benefits contributions in excess of expen: | 27.2 | 41.1 | 34.9 | (5.7) | (30.7) | (30.7) | (30.7) |
| Unrealized net loss (gain) on derivative financial instruments | (1.4) | 2.1 | - | - | - | - | - |
| Adjustment for accrued compensation | 0.7 | (0.6) | 7.8 | (0.6) | (0.6) | (0.6) | (0.6) |
| Increase in investment's fair value | 1.1 | 0.5 | - | - | - | - | - |
| Other | (0.5) | (0.3) | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) |
| **Operating Deficit Before Government Subsidy** | **279.1** | **307.6** | **325.0** | **301.2** | **288.8** | **295.7** | **305.3** |

**Pro-forma Financial Statements prepared in accordance with International Financial Reporting Standards**

# VIA RAIL CANADA INC.
## 2014 - 2018 CORPORATE PLAN
## BALANCE SHEET
## (MILLIONS OF DOLLARS)

| | ACTUAL | ACTUAL | | | PLAN | | |
|---|---|---|---|---|---|---|---|
| **Year ended December 31** | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | 15.9 | 21.8 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Accounts receivable, trade | 6.8 | 5.7 | 7.6 | 7.6 | 7.6 | 7.7 | 7.9 |
| Prepaids, advances on contracts and other receivables | 6.0 | 3.8 | 3.5 | 3.7 | 3.9 | 4.1 | 4.3 |
| Receivable from the Government of Canada | 10.4 | - | - | - | - | - | - |
| Derivative financial instruments | 0.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Materials | 22.6 | 24.9 | 25.0 | 26.0 | 27.0 | 28.0 | 29.0 |
| Asset renewal fund | 13.2 | 12.2 | 6.0 | 4.0 | 2.0 | - | - |
| **Sub Total** | **75.7** | **70.1** | **46.8** | **46.0** | **45.2** | **44.5** | **45.9** |
| **Long-term assets** | | | | | | | |
| Property, plant and equipment | 840.3 | 854.6 | 889.2 | 916.5 | 912.3 | 908.2 | 903.0 |
| Intangible assets | 398.3 | 396.2 | 393.7 | 385.9 | 372.9 | 354.4 | 334.7 |
| Asset renewal fund | 2.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Sub Total** | **1,241.1** | **1,251.4** | **1,283.5** | **1,303.0** | **1,285.8** | **1,263.2** | **1,238.3** |
| **TOTAL ASSETS** | **1,316.8** | **1,321.5** | **1,330.3** | **1,349.0** | **1,331.0** | **1,307.7** | **1,284.2** |
| **Current liabilities** | | | | | | | |
| Accounts payable and accrued liabilities | 103.0 | 90.2 | 74.2 | 93.8 | 126.4 | 276.2 | 435.6 |
| Provisions | 12.5 | 13.2 | 13.5 | 13.8 | 14.1 | 14.4 | 14.7 |
| Deferred government funding | - | 5.6 | | | | | |
| Derivative financial instruments | 1.2 | - | - | - | - | - | - |
| Deferred revenue | 27.4 | 30.8 | 24.1 | 25.1 | 26.3 | 27.5 | 28.7 |
| **Sub Total** | **144.1** | **139.8** | **111.8** | **132.7** | **166.8** | **318.1** | **479.0** |
| **Long-term liabilities** | | | | | | | |
| Accrued benefit liability | 388.3 | 43.7 | 8.8 | 14.5 | 45.2 | 75.9 | 106.6 |
| Deferred corporate tax liabilities | - | - | - | - | - | - | - |
| Deferred investment tax credits | 0.3 | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| **Sub Total** | **388.6** | **43.7** | **8.8** | **14.5** | **45.2** | **75.9** | **106.6** |
| **Deferred capital funding** | **1,229.0** | **1,237.4** | **1,268.3** | **1,287.9** | **1,270.9** | **1,248.4** | **1,225.7** |
| **Shareholder's equity (deficiency)** | | | | | | | |
| Share capital | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 |
| Retained earnings (deficit) | (454.2) | (108.7) | (67.9) | (95.4) | (161.2) | (344.0) | (536.4) |
| **Sub Total** | **(444.9)** | **(99.4)** | **(58.6)** | **(86.1)** | **(151.9)** | **(334.7)** | **(527.1)** |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | **1,316.8** | **1,321.5** | **1,330.3** | **1,349.0** | **1,331.0** | **1,307.7** | **1,284.2** |

**Pro-forma Financial Statements prepared in accordance with International Financial Reporting Standards**

# VIA RAIL CANADA INC.
## 2014 - 2018 CORPORATE PLAN
## STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
## (MILLIONS OF DOLLARS)

| | ACTUAL | ACTUAL | PLAN | | | | |
|---|---|---|---|---|---|---|---|
| **Year ended December 31** | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Share Capital** | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 |
| **Retained Earnings** | | | | | | | |
| **Balance, beginning of year** | (379.4) | (454.2) | (108.7) | (67.9) | (95.4) | (161.2) | (344.0) |
| Impact of adoption of revised accounting standards | | | | | | | |
| Restated Balance Beginning of year | (379.4) | (454.2) | (108.7) | (67.9) | (95.4) | (161.2) | (344.0) |
| Net income (loss) for the year | 26.4 | 41.9 | 40.8 | (27.5) | (65.8) | (182.8) | (192.4) |
| Other comprehensive income (loss) for the year | (101.2) | 303.6 | - | - | - | - | - |
| **Balance, end of year** | **(454.2)** | **(108.7)** | **(67.9)** | **(95.4)** | **(161.2)** | **(344.0)** | **(536.4)** |
| **Total Shareholder's equity** | **(444.9)** | **(99.4)** | **(58.6)** | **(86.1)** | **(151.9)** | **(334.7)** | **(527.1)** |

**Pro-forma Financial Statements prepared in accordance with International Financial Reporting Standards**

**VIA RAIL CANADA INC.**

## 2014 - 2018 CORPORATE PLAN

**FUNDING REQUIREMENTS AND SOURCES**

**GOV FISCAL YEAR YEAR ENDING MARCH 31**

| (MILLIONS OF DOLLARS) | ACTUAL 2008-2012 | ACTUAL 2012-2013 | ACTUAL 2013-2014 | PLAN 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | TOTAL 2015-2019 | TOTAL 2008-2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GOVERNMENT FUNDING AVAILABLE** | | | | | | | | | | |
| **Reference Level** | **1,013.3** | **161.3** | **151.3** | **146.8** | **146.8** | **146.8** | **146.8** | **146.8** | **733.9** | **2,059.8** |
| Funding for MOS - Stimulus Package | 20.0 | - | - | - | - | - | - | - | - | 20.0 |
| Additional Operating Funding | 173.0 | 113.0 | 153.7 | 199.2 | 163.9 | 140.3 | - | - | 503.4 | 943.1 |
| **Total Operating Funding - 2013 Corp Plan (2013-14 ARLU)** | **1,206.3** | **274.3** | **305.0** | **346.0** | **310.7** | **287.1** | **146.8** | **146.8** | **1,237.3** | **3,022.9** |
| Reference Level | 314.6 | 107.4 | 61.4 | 32.6 | - | - | - | - | 32.6 | 516.0 |
| Additional Capital Funding - Stimulus Package | 387.0 | - | - | - | - | - | - | - | - | 387.0 |
| Additional Capital Funding | - | 38.3 | 73.0 | 63.7 | 60.0 | 60.0 | - | - | 183.7 | 295.0 |
| **Total Capital Funding - 2013 Corp Plan (2013-14 ARLU)** | **701.6** | **145.7** | **134.4** | **96.3** | **60.0** | **60.0** | **-** | **-** | **216.3** | **1,198.1** |
| **Total Gov't Funding Available - 2013 corp plan (2013-14 ARLU)** | **1,908.0** | **420.0** | **439.4** | **442.3** | **370.7** | **347.1** | **146.8** | **146.8** | **1,453.6** | **4,221.0** |
| **VIA FUNDING REQUIREMENTS** | | | | | | | | | | |
| Operating Deficit Before Pension Costs | 1,110.2 | 213.0 | 226.9 | 244.4 | 262.7 | 273.2 | 280.1 | 289.3 | 1,349.8 | 2,899.9 |
| Less Use of Asset Renewal Fund (ARF) - Operating | (34.9) | - | - | - | - | - | - | - | - | (34.9) |
| Transfer Operating Funding to Capital Funding | 18.3 | (9.3) | (15.0) | - | - | - | - | - | - | (6.0) |
| **Total Operating Funding required** | **1,093.6** | **203.7** | **211.9** | **244.4** | **262.7** | **273.2** | **280.1** | **289.3** | **1,349.8** | **2,859.0** |
| Capital Expenditures | 732.2 | 139.6 | 91.4 | 112.4 | 81.8 | 64.1 | 60.0 | 60.0 | 378.2 | 1,341.5 |
| Less Use of Asset Renewal Fund (ARF) - Capital | (12.3) | (3.2) | (5.7) | (2.1) | (2.0) | (4.1) | - | - | (8.2) | (29.4) |
| Transfer Operating Funding to Capital Funding | (18.3) | 9.3 | 15.0 | - | - | - | - | - | - | 6.0 |
| **Total Capital Funding required** | **701.6** | **145.7** | **100.7** | **110.3** | **79.8** | **60.0** | **60.0** | **60.0** | **370.1** | **1,318.1** |
| **Pensions Costs Funding Required** | 112.7 | 70.6 | 93.0 | 78.7 | 29.3 | 19.3 | 20.3 | 21.1 | 168.6 | 444.9 |
| **Total VIA Gov't Funding Required** | **1,908.0** | **420.0** | **405.7** | **433.5** | **371.7** | **352.5** | **360.4** | **370.4** | **1,888.5** | **4,622.0** |
| **FUNDING DEFICIT** | | | | | | | | | | |
| Operating Funding Surplus / (Deficit) | - | - | - | - | (26.3) | (33.6) | (133.3) | (142.5) | (335.9) | (335.9) |
| Capital Funding Surplus / (Deficit) | - | - | 33.7 | (13.9) | (19.8) | - | (60.0) | (60.0) | (153.7) | (119.9) |
| Pension Costs Funding Surplus / (Deficit) | - | - | - | 22.9 | 45.0 | 28.3 | (20.3) | (21.1) | 54.8 | 54.8 |
| **Total Funding Surplus/(deficit)** | **-** | **-** | **33.7** | **8.9** | **(1.0)** | **(5.4)** | **(213.6)** | **(223.6)** | **(434.8)** | **(401.0)** |
| **ADDITIONAL FUNDING REQUESTED** | | | | | | | | | | |
| Additional Operating Funding - Operating Deficit | - | - | - | - | 26.3 | 33.6 | 153.6 | 163.6 | 377.2 | 377.2 |
| Additional Capital Funding | - | - | - | - | - | - | 60.0 | 60.0 | 120.0 | 120.0 |
| **Total Additional Funding Requested** | **-** | **-** | **-** | **-** | **26.3** | **33.6** | **213.6** | **223.6** | **497.2** | **497.2** |
| **CAPITAL FUNDING REPROFILLING** | | | | | | | | | | |
| New Proposed Reprofiling of Capital Funding | - | - | (33.7) | 13.9 | 19.8 | - | - | - | 33.7 | - |
| **Total Capital Funding Reprofilling Requested** | **-** | **-** | **(33.7)** | **13.9** | **19.8** | **-** | **-** | **-** | **33.7** | **-** |

NOTE: May not add due to rounding